Informal Transcript
of the
Proceedings
of the

Seminar on Investment in the Russian Mining Sector

Organized by
The Mining Working Group
of the
Canada-Russia Intergovernmental Economic Commission
and
The Canada-Russia Business Forum

Wednesday, March 8, 2000
Crowne Plaza Hotel
Toronto, Ontario, Canada

Foreword

The Seminar on Investment in the Russian Mining Sector was held in Toronto on March 8, 2000, in conjunction with Mining Millennium 2000 - a week-long event hosted by the Prospectors and Developers Association of Canada (PDAC) and the Canadian Institute of Mining, Metallurgy and Petroleum (CIM), and featuring the first-ever World Mines Ministries Forum (WMMF). It was organized by the departments of Natural Resources Canada and Foreign Affairs and International Trade Canada in collaboration with the Toronto-based Canada-Russia Business Forum. This seminar was a continuation of work undertaken by the Mining Working Group of the bilateral Canada-Russia Intergovernmental Economic Commission (IEC).

Dr. Keith Brewer, Director General, Minerals and Metals Sector, Natural Resources Canada and Mr. Michael Reshitnyk, Trade Commissioner, Eastern Europe Division, Foreign Affairs and International Trade Canada served as co-chairs. Speakers included His Excellency Boris Yatskevich, Minister of Natural Resources for the Russian Federation, and Mr. Tony Ianno, Parliamentary Secretary to the President of the Treasury Board and Minister Responsible for Infrastructure and Member of the House of Commons Standing Committee on Natural Resources. Representatives from both the public and private sectors of Canada and the Russian Federation, and from multilateral intergovernmental organizations, contributed their views on investment in the Russian mining industry.

These informal proceedings are based on a verbatim transcript of presentations delivered in the English language, and of simultaneous translations into English of presentations delivered in the Russian language. While some of the following text may not reflect the exact words of the presenters at this seminar, it is intended to capture the essence of what was said. Mr. Boris Aryev, member of the Board of Directors of the Canada-Russia Business Forum, reviewed the English transcripts of the simultaneous translation of the presentations made in the Russian language.

For further information on specific issues related to this paper or to provide comments, the reader is invited to contact:

Dr. Keith Brewer
Director General
and
Mr. Louis Arseneau
Senior Economic Policy Analyst
Economic and Financial Analysis Branch
Minerals and Metals Sector
Natural Resources Canada
580 Booth Street
Ottawa, Canada, K1A 0E4

Telephone:(613) 992-2662
Fax: (613) 943-8453
E-Mail: kbrewer@nrcan.gc.ca

Mr. Michael Reshitnyk
Trade Commissioner
Eastern Europe Division
Department of Foreign Affairs
and International Trade
125 Sussex Drive
Ottawa, Ontario, K1A 0G2

Telephone:(613) 996-7701
Fax: (613) 995-1277
E-Mail: michael.reshitnyk@dfait-maeci.gc.ca

Mr. Boris Aryev
Member of the Board of
Directors of the Canada-Russia
Business Forum and
President of Marhope Systems
25 Fairview Road West
Suite 1004
Mississauga, Ontario
L5B 3Y8

Telephone: (905) 279-5306
Fax: (905) 279-5307
E-Mail: baryev@better.net

101-00274/

Table of Contents

Foreword iii

Introductory Remarks

Mr. Keith Brewer, Director General, Minerals and Metals Sector, Natural Resources Canada 1

Opening Addresses

Mr. Tony Ianno, Parliamentary Secretary to the President of the Treasury Board and Minister Responsible for Infrastructure; Member of the House of Commons Natural Resources Committee 2

Minister Boris Yatskevich, Minister of Natural Resources, Russian Federation 5

Ms. Ann Collins, Director-Eastern Europe Division, Department of Foreign Affairs and International Trade Canada 9

Mr. Keith Brewer, Director General, Minerals and Metals Sector, Natural Resources Canada 11

Current Situation and Practical Experiences of Investors in the Russian Mining Sector

Mr. John Ivany, Executive Vice President, Kinross Gold 14

Mr. Yuri Kotlyar, Chairman of the Board, Norilsk Nickel 18

Mr. Ross Beaty, President, Pan American Silver 21

Mr. Ilya Rosenblum, Chairman, Magadan Regional Duma 26

Mr. Tim Haddon, CEO and President, Archangel Diamond Corporation 30

Mr. Sergey Dokuchaev, Chairman, Lanta Bank 33

Review of Morning Session and Discussion by Participants

Mr. Michael Reshitnyk, Trade Commissioner-Russia, Department of Foreign Affairs and International Trade Canada 35

Introductory Remarks for Afternoon Session

Mr. Keith Brewer, Director-General, Minerals and Metals Sector, Natural Resources Canada 38

Views of International Financial Institutions

Mr. Mamadou Barry, Guarantee Officer, Multilateral Investment Guarantee Agency, World Bank 38

Mr. Mark Rachovides, Associate Banker, European Bank for Reconstruction and Development 43

Mr. Leo Maraboli, Senior Mining Engineer, Global Mining Group and International Finance Corporation, World Bank 47

Ms. Eva Thiel, Principal Administrator, Relations with Russian Federation, Organization for Economic Cooperation and Development 52

Current Legislative Status from Western Legal Firm Viewpoint

Mr. Anatoly Andriash, Associate, Macleod Dixon - Moscow 56

Current Situation and Legislative Agenda for the Mining Sector in Russia

Mr. Alexander Strugov, Director, Nedra Centre/Production Sharing Agreements Section, Russian Ministry of Natural Resources 60

Mr. Nikolay Kolmogorov, Head, Precious Metals and Stones, Russian Ministry of Economy 65

Mr. Valentin Nikitin, Chief, Precious Metals and Precious Stones Department, Gasprombank 68

End of Seminar, Discussion and Questions 71

Annex - List of Participants 81

Introductory Remarks

Mr. Keith Brewer, Co-Chair of the Seminar and Director General, Minerals and Metals Sector, Department of Natural Resources Canada

Good morning everybody. I would like to start the seminar by welcoming all of you here. I have had the pleasure of meeting some of you before, others not. To both groups, I welcome you to Toronto and welcome you to the seminar. We have a very busy schedule today. I want to just recognize that we have people here from the Canadian government, Canadian companies, Russian companies and the Russian government. This seminar is organized with the help of the Canada-Russia Business Forum.

My name is Keith Brewer. I am with the Department of Natural Resources in the Canadian federal government in Ottawa. I will be chairing the session today in conjunction with Mr. Michael Reshitnyk who is a representative of the Department of Foreign Affairs and International Trade Canada. The seminar will be opened by Mr. Tony Ianno, Member of Parliament for Canada, and by Minister Boris Yatskevich, Minister of Natural Resources for the Russian Federation.

Before I call on them to open the seminar, there are just a few items in terms of logistics that I would like to address. You will need badges to get in and out of this meeting. You will not need a badge to share in the refreshments, but certainly you will have to identify yourself for the lunch which will take place outside of this room, just across the hall. The proceedings are being conducted with simultaneous translation, English-Russian and Russian-English, and you can access the translation with the headsets on your table. The English version is on channel 1 and the Russian version is on channel 2.

We were fortunate in getting a lot of volunteers to speak and express their point of view, so we have essentially asked each speaker to speak for 15 minutes. Michael Reshitnyk and myself, as co-chairmen, will do our best to keep everyone inside that time frame if we are to give everybody an equal opportunity to speak. As well, if anybody would like to have assistance in terms of their presentation, whether they are in PowerPoint or acetates, please let me know during the day and we will prepare before your speech. Before we get the seminar underway, are there any other questions that anyone would like to address in terms of logistics or arrangements? Good, thank you.

I will introduce Mr. Tony Ianno. He is the Parliamentary Secretary to the President of the Treasury Board and Minister Responsible for Infrastructure in the Canadian federal government. He is a Member of the House of Commons Natural Resources Committee and he is therefore well qualified to address us on this historic occasion. Mr. Ianno was first elected to the House of Commons in 1993, in the riding in which this hotel is, in fact, and he was re-elected in the 1997 election. He was a Member of the Standing Committee on Industry and the National Liberal

Caucus Committee on Economic Development. With that, and not mentioning all of his accomplishments, I would like to call on Mr. Ianno to open the seminar.

(Applause)

Opening Addresses

Mr. Tony Ianno, Parliamentary Secretary to the President of the Treasury Board and Minister Responsible for Infrastructure; Member of the House of Commons Natural Resources Committee

Thank you, Mr. Brewer. Distinguished representatives of the Russian Federation, leaders of the Russian and Canadian mining industries, delegates from multilateral intergovernmental bodies, ladies and gentlemen, I am delighted to join you at this important seminar on investment in the Russian mining sector and to bring you greetings from Prime Minister Jean Chrétien and the Government of Canada.

I bring greetings, too, from Canada's Minister of Natural Resources, the Honourable Ralph Goodale. Minister Goodale has asked me particularly to welcome you, Minister Yatskevich, and to make special note of the fact that two years ago you and he first met in Moscow.

As a member of the House of Commons Standing Committee on Natural Resources and Parliamentary Secretary to the President of the Treasury Board, it is my distinct pleasure to welcome all of you to Toronto and to my riding of Trinity-Spadina.

In the context of Mining Millennium 2000, and the first-ever World Mines Ministries Forum, which starts here tomorrow, this seminar is a reflection of our obvious mutual desire to improve the climate for investment in the Russian mining sector.

We took our first steps toward this moment back in 1993 with the creation of the Canada-Russia Intergovernmental Economic Commission—the IEC—which was established to improve commercial relations between our two nations.

Four years later, in October 1997, the IEC formed a Working Group on mining investment issues. Barely five months later, in March 1998, Minister Goodale went to Moscow to meet with you, Minister Yatskevich, to press for resolution of these issues. And just last year, Mr. Gennady Kulik, Deputy Prime Minister of the Russian Federation, came to Canada to raise many of these same issues with Minister Goodale.

Clearly, there *are* issues and there is support and commitment at a very senior level. But, most importantly ... and I think you can sense it in this brief chronology ... there is real momentum on both sides to resolve these issues—sufficient momentum to bring all of you together here to this room less than two and a half years after the establishment of the Mining Working Group.

We are all living, working, investing and trading in a new era—an era that calls for new answers, new thinking and, above all, new bold action.

History has made Canada an outward looking nation, an international nation. Our vast geography, our relatively small population, our known and unknown natural resources have made us, and will continue to make us, what and who we are: one of the leading trading nations of the world.

Of necessity, we subscribe to many international institutions—to many bi- and multi-lateral agreements and fora—including NAFTA, the Canada-U.S. Free Trade Agreement, the G8, and the World Trade Organization. Russia has not yet acceded to the WTO but has declared its wish to do so.

Over the last century, the Canadian mining industry has spread to many countries around the world, including Russia—operating more than 3500 properties in over 100 countries, with many billions of dollars of direct investment. However, our investment in the Russian mining sector is far below potential. Current figures are dramatically below the peak investment years of 1995-1998, when Canadian companies pumped close to half a billion dollars into the Russian gold mining sector alone. Last year, they invested just $22 million. We are *both* the losers for that.

Why is that? And what can we do about it?

The answers to the first question are well known. The answers to the second question are very much in your hands.

The issues affecting Canadian investment in Russia have been discussed in exhaustive detail since 1997. Our respective ambassadors and officials have spent a great deal of time on this file. Mining companies have struggled with many issues from difficulties associated with jurisdictional and land and licensing procedures to joint-venture and Production Sharing Agreements. And certainly our two ministers of Natural Resources—you, Minister Yatskevich, and Minister Goodale—have demonstrated a personal commitment to resolving these issues.

While much of our attention has been focused on Russia-Canada bilateral issues, many of these issues also affect other nations and involve many multilateral intergovernmental bodies—including the International Finance Corporation, the Global Mining Group and the

Multi-Lateral Investment Guarantee Agency (MIGA) of the World Bank, and EBRD and OECD. Their contribution to the issues before today's seminar has been and continues to be significant.

Allow me to bring all of this a little closer to the ground—to the mining companies and to the people who work for those companies.

Successful mining companies not only make profits, which permits them to operate and grow, but they also contribute a great deal to the social and economic well-being of the nations in which they operate. Here in Canada, partnerships and cooperation between governments or jurisdictions at all levels, between governments and industry, and among other key stakeholders, including Aboriginal peoples and environmentalists, help to create the climate for a healthy mining sector.

That open relationship allowed the Canadian government to work with Canadian mining companies to produce the March 1998 report "Concerns About Investment in Russia: Perceptions of Canadian Mining Companies." In turn, that report formed the basis of discussions between Russia and Canada, including important meetings with Duma Committees in April of last year.

Those meetings helped our respective governments understand just how much we have in common. For example, both Russian and Canadian mining companies with national and international interests face a major hurdle in the complicated division of powers. Other concerns, including those involving taxation, bureaucratic delays, environmental assessment issues, land access and security of tenure, importation of equipment, and currency regulations, are still very much a part of the current situation respecting investment in the Russian mining sector. Indeed, these issues are the very agenda for today's seminar.

Which brings us back to my second question: What can we do to rebuild Canadian mining investment in Russia?

Just holding this seminar is quite an achievement. Both governments are present; representatives of leading Russian and Canadian mining companies are in the room; and you have the generous, indeed enthusiastic, support of leading multilateral agencies.

It remains for all of you to act, to come away from this meeting with a clear plan, with a commitment to put your financial and human resources to work in the best interests of your natural resources.

Russia and Canada are two great mining countries with much in common. The Canadian government and the Canadian mining industry are both genuinely interested in contributing to the future development of Russia's mineral potential.

Certainly, in expressing my hopes, and those of Minister Goodale, for the outcome of this seminar, I wish you well in your discussions of the mechanisms by which foreign mining expertise and investment can be made available to the Russian mining industry. And in terms, of course, satisfactory to both foreign investors and to the Russian government and host companies.

The decisions you reach will be important. They could have a direct positive impact on the Russian economy in general and on the resolution of many issues, small and large, affecting mining companies operating in both Russia and Canada. You have come this far — this is the time to deal with these issues.

Again, I congratulate all of you, organizers and participants alike, for all that you have done. Your achievements to date are a solid foundation and I wish you good luck in your proceedings.

Thank you.

(Applause)

Keith Brewer, Co-chair of the Seminar

Thank you very much indeed, Mr. Ianno, for setting the stage for the seminar with your remarks.

In introducing the next speaker to open the seminar, Minister Boris Yatskevich, I note that he has been Minister of Natural Resources of the Russian Federation since August of 1999. But we have been well acquainted with him in his previous post as a First Deputy Minister of Natural Resources. He has had a very broad career that well qualifies him to be here today and to take the leadership on the part of the Russian Federation. He was State Secretary and First Deputy Minister of Natural Resources; he was Deputy Chair of the Committee on Geology and Use of Mineral Wealth, the NEDRA; he was Deputy Chair of the Committee on Geology and Mineral Resources, Ministry of Ecology and Natural Resources; and he was Head of the Department of Geology and Hard Mineral Resources. The list goes on, back to the beginning of his career. So with that, Minister Yatskevich, I would like to welcome you here, and ask if you will give the co-opening remarks for this seminar.

(Applause)

Minister Boris Yatskevich, Minister of Natural Resources, Russian Federation

Thank you very much, ladies and gentlemen. I think that Mr. Ianno has made my task much easier to a large extent because I am going to talk about something that is very close to what he said, which he has so brilliantly covered.

First, ladies and gentlemen, allow me to greet the organizers of this seminar and its participants. This has become indeed a traditional seminar and this is something we welcome because continuity is better than sporadic, ad hoc meetings. Today's seminar is being held under the auspices of the Russia-Canada Intergovernmental Economic Commission, IEC. And as a member of this commission, I think, just like the Canadian officials (this is something that has been already mentioned) that this seminar is very useful in order to have a deeper insight into the current state of the problems and the prospects of cooperation between Canadian and Russian companies, and our companies' cooperation not only with Canadian but with various western, foreign companies in general.

As you know, the majority of Canadian and Russian companies, as well, are well-integrated into the world economy by now. Very often, the headquarters of the company are in a place that is not indicative of where the company operates; and today, in order to plan our future actions, we have to ask ourselves what we can do to upgrade, to perfect the existing legislation, the substance of the laws, that have been developed in Russia, so that we can overcome what is practically (and I am not afraid to say so) a crisis situation.

This (existing situation) is explained by objective reasons. First, the Russian crisis in 1998. That was a turning point that made our cooperation much more difficult, but I think that crisis, as everything in the world, is temporary and will be overcome, and we have a lot of prospects for development. I took part in a similar seminar here in Toronto in 1996 and so, if I may, I would perhaps start talking about the developments as of that date. At that time, the Russian governmental structures, including one that I am representing in particular, very often were considered to be principal participants during the negotiations with Canadian mining companies, and the question whether it is profitable for Russia that Canadian companies participate in certain projects was a key issue at that point. It was a good question at that time, because our financial institutions and the Russian companies were nascent, were just entering the market economy, and legislation was mostly in uncharted waters.

And so, on the one hand, Russia was a country, a partner. On the other hand, companies, the subjects of entrepreneurial activities, had to be brought to a certain level. And it so happened that the Russian government was assuming various responsibilities for various projects.

And thank you again, Mr. Ianno, for highlighting the most important aspects in our cooperation. This issue that has been brought up earlier today perhaps should be addressed in a different way. Is it good for Russia and Canada to cooperate? Is a bilateral cooperation between financial and various other business circles a good thing? I think a simplified response to this question is "yes," this is profitable. It is advantageous if it is not against the legislation of our countries, and at the same time responds to the interests of Canadian and Russian companies. And this is, again, something that has been mentioned. We share fully such an approach, such a position, and see our duty in doing our utmost to facilitate this coordination and streamline the legislation, so

that the legislation assists the companies and makes it profitable, both for the companies and for the country. And minimizes, as much as we can, interference in the internal operations of the companies, and supports the creation of an atmosphere of partnership, the creation of optimum conditions for investment and mutual cooperation. This is how we see our responsibility and duty, and we are very happy that Canadian officials fully agree with this approach.

Are we doing everything to make that formula work today and improve over time? I guess we are not doing everything that we could but, nevertheless, to appreciate what we have done since 1996, I would like to remind you of the range of problems that we had at that time. Investors were faced with a whole complex of problems:

- First, there was a lack of legislative procedure for concessions related to the use of the subsoil.
- Second, the absence of risk guarantees to western companies hindered their ability to get a return on investments.
- Third, the impossibility to issue licenses for a group of legal entities, the impossibility to deal with consortia and issuing licenses to such consortia. This was an impediment to large projects that require investments which are too large for individual companies.
- Fourth, you know, back in those times, there was a time limit of twenty years for use of the subsoil, and that was a difficulty.
- Fifth, the lack of legislation that would streamline the negotiating process for Production Sharing Agreements.

After all these years, and I will address all five, we have solved all these issues in a legislative way.

- We do have in place the transfer of title for rights to the use of the subsoil.
- Yes, we have guarantees, according to Russian legislation, to virtually automatically receive rights to deposits as a return on investment that has been made in projects involving risk.
- We can now deal with consortia; holding companies were issued licenses according to the laws.
- The terms of use of the subsoil have been extended until the deposit is exhausted. Again, there are no limitations to the extension.
- And over the last four years, still with all those shortcomings that we had, most of the legislation has been put in place that allows us to talk about a civilized approach to Production Sharing Agreements in today's Russia. And I think that our colleagues are going to speak about that in more detail.

In brief, about the modern economic situation in Russia: as you know, there are different assessments of current tendencies in the Russian economy, but, nevertheless, I would like to tell

you, with a full sense of responsibility, that the Russian economy today is surfacing from the crisis and is improving. This is a fact irrespective of how we explain these processes. The GDP has been increasing. There is growth of a certain percentage and this seems to be sustainable, both in economics and in politics.

As far as the mining sector is concerned, irrespective of most pessimistic prognostications, in 1999, Russia retained, and in some instances increased, the production of quite a few minerals, including oil. Russian oil output has grown, despite some opinions about a bleak future for extraction, and we hope for still more growth. We have extracted much more gold in Russia last year, again the prospects were quite bleak, and we hope that this is going to be sustainable, as well as coal, diamonds and many other minerals.

We are optimists. We experience a moderate optimism and would like to instill that optimism, albeit in a moderate fashion, in you. We always talk about political risks in Russia and I think even skeptics have to admit that the results of the December elections to our Legislative Assembly, when the reforms were put to the test, have convinced many that what has happened in Russia is for the long term. Russia is firmly on its way to liberal reform. Russia is building democracy in its own fashion in accordance with its specific traditions and traits.

What has happened, and what is happening today, is evidence of the fact that the opinion about high political risk in Russia is perhaps overstated. This is something that we have been convinced of on many occasions before, and I believe we will see more evidence of this in the future.

Indeed, we still maintain the civilized rules of the game of investment in the Russian economy. And we are going to use our best efforts to ensure that this investment, especially from Canada (a country that is very close to us, both in terms of climate and abundance of mineral resources), is facilitated without bureaucratic hurdles, that we can have a green light for such investment.

Our leader has said that Russia has never tried, and is never going to try, to be isolated. We are an open country, and I share in this conviction that today's seminar is going to be instrumental, as another step forward which will get us into a trot, and perhaps into a gallop, on the way to investment, because indeed we are in the twenty-first century.

Again, I would like to wish every success to each and every one, and I am looking forward to hearing all your criticism of us. And, if we have time at the end, I will be prepared to respond to questions from the floor, and to make such comments that I hope would be useful and that you would find amenable. Thank you, again. Thank you very much.

(Applause)

Keith Brewer, Co-chair of the Seminar

As usual, Minister Yatskevich, you made very clear statements, very positive statements, and you demonstrated again your openness to discuss in a constructive way. I think that is what is behind all of us being here today. You have pinpointed the areas of our future cooperation. I would note that Mr. Ianno has said that he has to leave very soon. I think that is one of the penalties of being at a seminar that happens to be in your own electoral district. You are not far from work. You are not far from your constituents. Minister Yatskevich does not have that problem, he just has to refuse to answer his cell phone! Anyway, for both Mr. Ianno and Mr. Yatskevich, thank you very much. It is an excellent beginning for the seminar.

Let me introduce the next speaker, who is Ann Collins, representing the federal government's Department of Foreign Affairs and International Trade. Ann Collins is the Director of the Eastern Europe Division. Before that, she was one of Canada's representatives in Russia. She was the Consul General for Canada in St. Petersburg.

(Applause)

Ann Collins, Director-Eastern Europe Division, Department of Foreign Affairs and International Trade Canada

On behalf of the Department of Foreign Affairs and International Trade of Canada, I would like to welcome you, Honourable Minister Yatskevich, to Canada and to Toronto, and I would like to extend my appreciation for finding time to take part in this seminar.

As the Minister knows very well, Toronto has become a regular port of call for Russian companies and officials interested in partnerships with the Canadian and the global mining industry. We hope that the Minister and the Russian delegates who are with us here today will continue to feel at home here.

Mr. Ianno has noted that the seminar has brought together today an exceptional roster of speakers. By their experience and expertise, they represent all facets of the investment and financing environment for the Russian mining sector. Russian and Canadian officials are responsible for regulation and promotion. Representatives from key international financial institutions work to provide equity, financing, and technical support for Russian mining projects. Russian and Canadian mining companies are, of course, also here in full force. When our cooperation is successful, it is based on transparency, understanding and frank discussion. It has been our strategic objective from the outset to ensure that that spirit pervades this discussion. We all know the opportunities, but we also need to be up front about the problems we face.

Canada has long recognized the potential for extensive economic partnership with Russia in the mining sector. Over the past decade, Canada has invested heavily in promoting these linkages. Gilles Couturier, who is with us here today from our embassy in Moscow, was involved in the historic Moscow gold seminars several years ago. And many of those present here today took part in last April's Mining Mission to Moscow. Partly as a result of those promotional efforts, but mostly as a result of interest on the part of Canadian companies, Canada has become a leading investor in the mining sector in Russia. The Mining Working Group under the Canada-Russia Intergovernmental Economic Commission was founded in 1997 for one reason: to foster ties among companies. It reflected long-standing, two-way, interest; it met objectives on all sides, and it made very good sense.

But today our focus on Russian mining has changed dramatically. Instead of promoting Russia as a destination for Canadian firms, we, as a government, are finding ourselves devoting more and more of our sustained efforts to helping companies remove blockages that are preventing their projects from being realized. It is difficult to underestimate the importance of this shift. Instead of pursuing new business projects, our activity now is devoted more and more to resolving disputes or removing impediments that are threatening current projects and deterring companies from planning new ones. We need to work together to reverse this trend. Today's seminar is an important step in that direction.

There are structural issues that need to be addressed. Keith Brewer of Natural Resources Canada will address many of these issues in greater detail. But I would like to mention just a few. To raise equity and loans on commercial capital markets or from international financial institutions, companies need credible iron-clad assurances that their licenses will not be withdrawn, withheld or challenged arbitrarily. If licenses cannot be guaranteed, Canadian and western companies' new deposits are unlikely to be developed, and international financial institutions are unlikely to satisfy due diligence and securitization requirements. The issues of subsoil licenses and high taxation led to the departure of a number of Canadian companies from the Russian oil and gas sector a number of years ago. There is a window of opportunity now to address these types of issues in the mining sector and we hope, of course, in the oil and gas sector as well.

So there are structural issues. But investors, financial institutions and markets also respond to signals. We are getting mixed signals, or messages, out of Russia today on the issue of investment. The Russian government, from Acting-President Putin on down, has said that Russia welcomes and will protect investment, including foreign investment. And two weeks ago, at the request of Acting-President Putin, Russian Minister Alexander Livshits visited Canada, seeking the input of the Canadian government and Canadian investors on how to improve the investment climate in Russia. Minister Livshits traveled to several Canadian cities and met with many Canadian companies. And the companies were very frank with him about the challenges they are facing, and we were very frank about the mixed messages that we are receiving. For example, almost every day in the Russian press there is another story about how Russia does not

need foreign investment in mining, or how such-and-such project will not be tendered to foreigners. These attitudes can permeate the day-to-day dealings investors have with Russian regions, local partners and ministries. And they can result in serious obstacles to investment.

I think we all recognize that Canada-Russia relations in the mining sector are at a pivotal moment, which is why today's seminar is so important. At the top of our bilateral agenda with Russia in mining are projects such as those involving Pan American Silver and Archangel Diamond Corporation. These are bellwether, watershed projects. Positive results on projects such as these will send an important signal to the Canadian mining community about the investment climate in Russia.

Minister Livshits heard, when he was in Canada, that progress on investment issues is a priority for our economic relations with Russia. And Minister Yatskevich will hear the same today. We need to put the disputes and the investment impediments behind us. I am confident that today's discussion can help us all ensure that the very real and mutually beneficial opportunities we all recognize can be realized. Thank you very much and have a very productive discussion.

(Applause)

Keith Brewer, Co-Chair of the Seminar

Thank you very much indeed, Ann. We will now proceed to the seminar proper.

Keith Brewer, Director General, Minerals and Metals Sector, Natural Resources Canada

I was asked, and I accepted somewhat reluctantly, to try to set out where we were in terms of having written the paper called *Concerns About Investment in Russia*: *Perceptions of Canadian Mining Companies.* The purpose of addressing this here today is simply to see where we were, and to set out a check list for subject areas that will be covered later. The paper itself was a check list for topics of bilateral discussion and is a backdrop to the seminar. But, it is the progress of economic transition in Russia that really is the basis of the interest of foreign companies in investment in Russia. Minister Yatskevich addressed that just now, and confirmed the interest of the Russian government in foreign investment. I would recall, for those of us who were participants in the April 1999 Canadian mission to Moscow, that we met with the Russian Co-Chair of the IEC, Mr. Gennady Kulik; he did confirm that the Russian government's intention was to attract foreign investment. Therefore, the premise for existing and potential foreign investors really is that foreign investment is welcome in Russia. But, as well, foreign companies believe that there are many countries to choose from, when investing globally.

Very important, in the case of a transition economy like Russia, is how the actual application of policy is progressing, and whether the experience of companies is positive or negative.

Therefore, one of the objectives of the seminar is to exchange views on the application of policy and regulations, and the experience of foreign investment in Russia. Some officials in the multilateral organizations, including the IMF, have noted that the "*Concerns*" paper has become important to them as a benchmark of progress... to track the progress of structural reform in Russia. Obviously, from the point of view of a foreign investor, clarification of the issues raised in the paper would help foreign investors adhere to the rules and regulations of the host country, Russia. Therefore, today, another objective will be to try to record progress against the benchmarks of the "*Concerns*" paper, against the time when the paper was originally first written two years ago.

Really, there are five main groups of issues in this "*Concerns*" paper which, by the way, I hope you picked up at the back of the room, both in English and in Russian. First, regulations, procedures and information was one subject area. A second area was taxation and Production Sharing Agreements. Then there was marketing and exporting concerns, importation of machinery and equipment, if you got to the mine-building stage, and then generic investment issues.

Some of these issues in Russia we can understand from the Canadian point of view. The lack of understanding about the division of jurisdictional authority in Russia, and where the authority lies, has been a continuing problem for some companies. (The reason why we can understand those issues is that, in Canada, we have generally worked out the federal-provincial accommodation. But that did take some time, although it is in the Constitution as far as minerals are concerned). Licensing and tendering issues are of the most concern, apparently. In part, this is because the legal system has not developed sufficiently, and does not give the necessary level of recourse to remedy and protection in case of disputes. The issues of environmental assessment and protection, and bureaucratic delays, are common accusations against jurisdictions in many countries, and I think I have heard that is an issue sometimes in Canada as well.

Canadian tax regimes have been in place for a long enough period of time that there is a fair degree of certainty about their structure. In Canada, the Canadian tax system applies to all investments according to the general rules that currently prevail. The expectation, on the part of investors, is that, once they make an investment, the tax system will apply to them as it does to others. So, in designing a nation-wide tax system, as Russia has had to do, decisions are required as to, for instance, which level of government should have the power to tax, and what agreements should be in place between different levels of government in regard to the taxation to which companies will be subjected. The investor needs to know the totality of the tax rules that will apply. Many questions have been raised regarding Production Sharing Agreements (PSAs), including whether a PSA can be effectively implemented with a consortium of investors for a mineral project. Doubt has been expressed because a mineral product is not homogeneous and fungible, as would be the case for oil; we look forward to Mr. Strugov's excellent presentation before this seminar today.

The high number of different taxes translates into uncertainty, and a realization that the total tax burden on a project may be so high as to mean that the project cannot be economically viable. Companies must know what the tax system is, in advance, and what will be the total level of taxation to which they will be subjected. On the question of whether there should be a revenue-based regime or an income-tax based regime, investors would generally prefer an income-tax based regime. And, in the area of administration and interpretation of the tax system, it has been observed that there are instances of conflicts within the total tax regime.

The three items on this slide relate to delays in the selling or marketing of production, to the price received, and to the ability to convert to current currency. And do not forget we are talking about the expression of what was written in the original "*Concerns*" paper, and we want now to determine the extent to which there have been changes since then.

The importation of machinery and equipment, of course, presumes that investment is going to take place. From a government's point of view, there are always issues as to whether or not the government wishes to operate the economy through encouragement of industrial specialization, through economies of scale, and trade, or whether there is a policy of trying to support or protect domestic production of machinery and equipment. Whatever will be the decision on the part of Russia, the experience of some importers is that some importing procedures need to be streamlined, particularly in regard to urgently needed spare parts.

There was also a request to review tariffs and duties. General investment issues included clarification of currency regulations, difficulties with joint-venture partners, the need for a new investor to do new due diligence even when exploration had been carried out under the previous owner in Russia, and the ability of the legal system to force adherence to contracts by means of an orderly dispute settlement mechanism. So, the main issues that were raised, and perhaps the most important, related to taxation, licensing and tendering.

In terms of conclusions: Mining investment from domestic and foreign sources is an important contributor to the economic well-being of a country, at least we feel so in Canada. Canadian and foreign companies are highly interested in Russian mining opportunities, but maybe not at any cost. Hopefully, I have been able to encapsulate quickly the elements of the discussions to date, and to provide some beginning momentum for the experts who will now follow.

I had mentioned to a few of you that, unfortunately, I also have to leave the seminar for a short time, to deliver a paper in the main PDAC session, on the topic "Government Approaches to Mineral Policy and Taxation." If you are at all interested, it will be repeated at the Friday morning session of the World Mines Ministries' Forum. I will return immediately thereafter, but I will now turn over the chair of the meeting to my colleague, Mr. Michael Reshitnyk of Foreign Affairs and International Trade, and I look forward to seeing you in 45 minutes. Michael...
+(Applause)

Current Situation and Practical Experiences of Investors in the Russian Mining Sector

Michael Reshitnyk, Co-chair of the Seminar

Thank you, Keith. I wonder if I could ask our esteemed colleagues at the podium to take a seat in the audience, and I would invite Mr. John Ivany, Mr. Yuri Kotlyar and Mr. Ross Beaty up to the podium.

Our first speaker in the next session is Mr. John Ivany. He is Executive Vice President of Kinross Gold and, as we all know, they have a significant project in the Russian Far East. He will be talking to us about the situation of their company there. John...

John Ivany, Executive Vice President, Kinross Gold

Thank you, Michael. Mr. Minister, ladies and gentlemen. It is a pleasure for me to be able to talk about Kinross' experiences in Russia.

What I would like to do is outline how we inherited the ownership of our shares in the Omolon Gold Mining Company. The Omolon Gold Mining Company owns the Kubaka mine which is in Magadan. The Kubaka mine is the largest single gold producer in Russia. Kubaka was acquired by Omolon in the early 1990s when Cyprus Amax, a large U.S. based copper company, was looking in the far east of Russia for copper prospects. They did not acquire any copper prospects but, in the course of that search, they came across the fact that the Kubaka deposit was going to be tendered, and they formed the Omolon company with a group of Magadan-based shareholders and were successful in tendering for Kubaka. The mine was built in late 1996 - early 1997, over the winter season. And, in May of 1997, Cyprus sold its interest to Amax Gold which was a subsidiary of Cyprus, a publicly traded U.S. gold company. The Kubaka mine went into production on June 1, 1997, and in June of 1998, Kinross and Amax merged with Kinross as the continuing operating company.

As you can see, the Kinross management was not responsible for the investment decision nor was it responsible for the construction, but we have been operating the mine for the last two years.

The mine is truly a magnificent gold mine. It is located in Magadan, a remote region in the far east of Russia. Let me review for you some of the highlights of last year's operation. We had no lost-time accidents at the mine. We had no environmental infractions. We produced slightly under 500 000 ounces of gold at a cash cost of US$142 an ounce. Total capital spending was only US$600 000, and mill through-put was 797 000 tonnes or 2185 tonnes a day. The grade

was 20.2 grams per tonne, with 22.2 grams of silver per tonne. Recoveries averaged 98% for gold, 84% for silver. Milling costs averaged US$15 per tonne. A total of 9.5 million tonnes of ore and waste were mined during the year. The average mining cost per tonne of material moved was US$1.29. We managed to achieve the completion test in our loan agreements, and the loan went non-recourse to Kinross during the course of the year.

What we have been focusing on as the main concern for Kubaka for the past year, and for the ongoing years, is a vigorous exploration program in the region to find additional reserves. Because, as I will point out to you, in spite of all the positives of this mine, its short life creates most of the problems.

What I was asked to do was to review with you our impressions and our experiences as an operator of this mine. And the tendency at sessions such as this is to dwell on negatives and ignore the positives. Mr. Minister, I would like to assure you that there are several positives to our operations in Russia, and I would like to start by enumerating some of those.

The ore body is a fine ore body with high grades, and it is amenable to open pit mining methods. It was well delineated long before Cyprus, Amax or Kinross ever became involved, and the work in delineating that ore body was first-class and beyond reproach. That took most of the technical risk out of the decision to put the ore-body into production. We have a high calibre work force at Kubaka, with a level of education by far exceeding the level of education in any of the work forces at any of our operations around the world. I think over 30% of the employees at Kubaka have post-secondary education, and all of them are high school graduates and are literate. We have managed to be very productive with that work force, and that is one of the great assets of the Omolon Gold Mining Company.

In spite of what you hear about the myriad of bureaucracy, conflicting laws and almost pedantic application of those regulations and laws, in those few instances where we have had to obtain permits and then licenses or do similar things to keep the operation going smoothly and accommodate operational changes, our experience has been that we have actually been able to get the attention of senior officials and achieve those permits quicker than we could in a North American context. The ruble devaluation, although crippling to most of Russia, has allowed us to maintain a very low cost structure at Kubaka.

And the last positive I would like to mention is that we have avoided a lot of the well-known negatives. We have never been extorted, nor asked for a bribe. We have never had a dispute or an attempt to steal our license, and we have been fortunate that our partners have been reputable and good people to deal with. Our partners, by and large, have been decimated by the financial crisis in Russia and several of them, in fact, are bankrupt. The main partner, Geometall, is represented here by Mr. Rosenblum, who is well known in the mining business in Magadan. He,

up until recently, was Chairman of the Omolon Gold Mining Company, and he has been very helpful in guiding us through the methods of doing business in Russia.

The difficulties that we have encountered at Kubaka are not necessarily all unique to Russia. The remote, far northern location presents the same problems that one would encounter in Northern Canada, and we deal with the problems much the same as we would in Canada, the difference being that the supporting infrastructure in Canada is quite a bit more advanced, compared to what you would find in Magadan. Magadan is a very poor region. It needs development, it needs diversity in its economy and, until that happens, people will suffer from a poor infrastructure in that part of the country.

What I would like to dwell on this morning in terms of negatives, if you will, are three areas, which our experience has led us to believe to be the key in encouraging future investment in the country. These are in no particular order, but I would first like to talk about the way, under Russian regulations, that a gold producer has to deal with its product. This creates tremendous difficulties with regards to the initial investment decision. Kubaka was a very high capital-cost project for such a relatively small operation. Initial capital costs were about US$240 million and, when we took over in 1998, we found there was a deficiency of working capital. We had to inject another US$20 million of working capital, so I think the real capital costs were more in the order of US$260 million. The investment was achieved, planned, and based on the expectation that gold prices would be US$375 per ounce and rising. We all know that that was a very optimistic view of where the gold market was going.

As part of the licensing process, Omolon was required to first offer its product to Roskomdragmet, which was the agency of the federal government responsible for purchasing precious metals and gems. It was agreed that, if Roskomdragmet was unable to purchase the product, then the producer was going to get a license to export doré, which would enable him to take the doré abroad, refine it abroad where the refining costs are significantly cheaper than in Russia, and sell the product abroad. Unfortunately, the protocol allowing the latter was never translated into laws by changing the necessary customs regulation and granting the necessary permits so that, in June of 1998, when we arrived on the scene, Gohkran, which had then succeeded Roskomdragmet as the purchaser of precious metals, had not been funded by the federal government. It was, therefore, not purchasing gold. We were unable to export gold because we had no export license, and we had 150 000 ounces of gold backed up in the gold room at the mine site, largely explaining the deficiency in working capital at the operation. So we set out, as our first priority, to find out how we could deal with this product. We found ourselves in the middle of a bit of a struggle internally in Russia with regard to who would get export licenses, if anybody would get export licenses. The banking community had set itself up against the producing community, and the banking community won. So now that we are a producer, we have this gold in inventory, we have no export license, we are forced to deal with a

small number of Russian banks, who in June of 1998 were sitting on the cusp of a default which came to fruition in August.

So we not only had to go through hoops to export our gold, we also had to assume some of the risks associated with those very weak banks, as it turned out. The upshot of this was that, because you did not have the freedom to deal with your product, you could not put a hedge position into place. There was no mechanism to finance Kubaka with a gold loan, and so the owners were totally exposed to the falling gold price. And that is the single biggest reason that Kubaka on the whole as a project will have an inadequate return to its shareholders. Had the companies been able to secure a price anywhere near the price that was existent at the time the investment decision was made, it would have been quite a different story for the profitability of this project. I encourage you, Mr. Minister, to review the necessary changes to enable producing companies to protect themselves by either hedging or entering into gold loans with regard to new projects.

The second area that we think is critical, and needs review, is the overall taxation burden placed on Russian operations. We pay approximately 30% of our revenues in taxes and most of the taxes—we pay some thirty odd different taxes—all but very few of them are revenue-based taxes. So, in a falling gold price environment where margins are being squeezed, the taxes are becoming an increasingly larger percentage of your costs. In any North American accounting of profits, we pay far in excess of 100% as a tax rate based on profits.

One of the encouraging events was in the last month. Minister Livshits was in Toronto. I had an opportunity to meet with him. We had a very constructive meeting and he indicated that the government is fully aware that this tax burden is a disincentive to investment in Russia, and he also indicated that... in fact, he encouraged us to enter into a dialogue to try and ameliorate the tax burden.

The last area is more general in nature and is really structural to the economic and political overview of Russia and will be dealt with in detail by the likes of Mr. Brewer. I would just like to point out that, as a company operating in Russia, the effects of the uncertainties, both economic and political, are to dramatically increase costs and risks. We pay on our loans, principally with the EBRD and with OPIC (U.S. Overseas Private Investment Corporation) LIBOR plus 6 1/2%, which is more than we would pay in almost any other jurisdiction; and that is strictly as a result of their view of the political risks in Russia.

I heard your comments, and I agree that Russia understands this and is making the moves to try and put lenders at ease. I would encourage you to stay the path in those reforms because, otherwise, it is not only the high interest rates you pay, it is the few lenders that are available to you, so that all of the terms of your loan agreement become very onerous because there is no competition amongst lenders. The second point is, with an uncertain economic environment, you

have a very weak banking system internally in Russia, and the availability of working capital to suppliers, to operations such as ourselves, is difficult. As a result, we have made great strides in procuring goods and services within Russia, but we are dealing with very financially weak suppliers and we have to, in order to keep them afloat, make large advance payments to them. The risks, although we have not suffered a loss on account of making those advance payments, are always present, and it would be overly optimistic to think we are never going to suffer one of those losses.

So, on balance, had we had a gold price anywhere near what had been anticipated when Kubaka was built, our overall experience in Russia would have been very good. The combination of a falling gold price, and some unique high costs associated with the matters I have talked about, have meant that the return to the shareholders on Kubaka is inadequate. However we are, as I said, interested in continuing with the assets we have in Russia, the workforce, the equipment to develop other projects in that part of the country. And we are encouraged to hear your remarks this morning. Thank you.

(Applause)

Michael Reshitnyk, Co-chair of the Seminar

Thank you, John. The next speaker this morning is Mr. Yuri Kotlyar who almost needs no introduction as Chairman of the Board of Directors of Norilsk Nickel in Russia. Yuri was born in September 1938 in what was then Leningrad, and entered the Machine Tool Construction Institute and graduated from it in 1960, with a specialty in machines and technologies for smelting. His first job, in fact, was in Norilsk in their mining and metallurgy combine plant, where he held consecutive promotions and must have been very determined to get to the point where he is now. He has not always been with Norilsk Nickel, and held several senior positions within the government portfolio. As I mentioned, we are very pleased to have Mr. Kotlyar here, and I would invite him to provide us with some comments on their experiences. Mr. Kotlyar...

Yuri Kotlyar, Chairman of the Board, Norilsk Nickel

Dear colleagues, I think you are asking for an answer to the question "is it possible to continue working in Russia?" Consider the fact that Norilsk Nickel is one of the largest corporations in Russia. Today it has a niche in the world's metals production of up to 22% of nickel, up to 4% as far as copper goes, and over 40% of the platinum group metals including palladium, which is the subject of so many discussions.

Our company has Canadian provenance, interesting as it may sound, because as part of the Norilsk group we have a nickel combine which used to be owned by Inco Corporation and the first mines and the first smelters were built according to this Canadian company's experience

(Editor's note: The Pechenganickel mining and metallurgical combine was founded in 1940 by Inco on Norwegian territory. After the Second World War, this territory became part of the Soviet Union and the combine was reopened in 1946.) You can consider our operation as a continuation or an extension of the Canadian mining industry on Russian soil.

I can take a long time trying to answer your question as to whether it is difficult or easy to work in Russia. We can talk about high corporate taxation levels, but you have to take this corporate tax burden and compare it with the personal taxes of the individuals who work at these enterprises. I think that, in Canada, the taxes are not lower if you combine the taxes paid by each individual and the taxes paid by the corporations they are working for. So, unfortunately, in the world there are few zones where there is a taxation regime which allows easy mine development.

Considering the fact that the good Lord has put these deposits in highly remote areas, and this is something we have to take into account and develop these deposits where they are. Yes indeed, the taxation climate and the investment climate in Russia are quite complex, but we have to appreciate the fact that the Russian democracy is quite young, and it is learning to stay on its feet through those seven, eight years of legislative work.

With the attempts to govern the state, the state Duma was actively seeking to implement and draft many laws and, unfortunately, many of these laws do not have direct implication. They require additional development, legislative development, additional regulations from the government. Many of these laws are not implementable. For example, the precious stones and precious metals law that took about four years to be approved had virtually paralyzed the entire market of precious stones and precious metals. The shortcomings my colleagues have talked about are a consequence of such legislation that does not correspond in any way to world practices. And I think everyone understands that legislation needs to be upgraded, and has to be adapted, just like the precious stones legislation was and the precious metals part was added to it. So, I think that the investment climate is something that we have to work on.

There is a lot of room for improvement and certainly the government needs to work on that but, within the Canada-Russia Intergovernmental Economic Commission, we have to tackle these issues that the Canadian businesses raise. I think it would be feasible to create some sort of an inter-parliamentary commission, between the Parliament of Canada and the Russian Parliament, to perhaps try to streamline our controversial legislation that would allow businesses to operate in our country.

I would like to say that, even under these conditions, it is possible to work in the Russian market. In particular, I would like to cite our corporation as an example. Three years ago, we had three and a half billion US dollars of debt, of liability. We were almost on the verge of bankruptcy. Where is our corporation today? We are going to have more than US$3 billion in sales this year.

Our production is mostly export oriented, unfortunately, because the domestic market cannot consume all this metal. We are going to have more than US$500 million in profits.

Through all this time, we have been mostly re-investing our own profits. We have now developed quite a comprehensive program to the year 2010. You should understand why we have done that. There is competition between the Canadian producers, the Australian producers, and the Russian producers. Who is going to remain in the world market? We will see, but we have stuck our necks out and we can tell you that Russian nickel is going to be on the market until 2010, whether the competition likes it or not. We would like to be seen as one of the players and we are looking forward to see who might remain on the market and with whom we should establish strategic partnerships.

We have a lot in common. We work with you. The Canadian north is similar to the Russian north. We work with native minorities, the problems of whom, the development of whom, need to be addressed. Similar problems exist in Canada and I think that all of us have seen the difficulties encountered by Inco Corporation in Labrador. We appreciate the difficulties that they faced with the local authorities, and we hope that in Russia we are going to have fewer difficulties for such projects.

Year 2000 has seen a tremendous growth of activity for large corporations in Russia. There is a lot of demand for Russian oil, gas, nickel, copper, precious metals. Russian corporations now have additional resources available to them. We have recently had a meeting with Anglo-American. Because of high prices (nickel), they see new opportunities in working with us, and they want to invest in the future. But the problem is that, unfortunately, large investment projects have to go through the due diligence process. To get the technical and environmental assessment done and to arrange financing takes time, two or three years.

As for bureaucracy, I think that it is something intrinsic to any country. The longer bureaucracy is in place, the stronger it is. Russia's bureaucracy has been around for ten years. Canada's for over 200 years, if I heard correctly, and the United States even more so. There are quite a few problems as far as bureaucracy is concerned in each one of these countries. I think that bureaucracy is such a formidable challenge in Russia, just like it is in other countries. It is something to be dealt with, something to be addressed, and under democracy we try to lessen the impact of the bureaucracy.

Tomorrow night, we are going to have a special meeting to present to you our strategic development program until the year 2010. The reason we do this is because over a certain period of time, Canadian (mining equipment) companies virtually left the Russian market. And to my amazement, I am not aware what kind of equipment and what kind of materials Canadian companies can supply to us at this point. It would be hard for me to respond to that question. The Russian market has been mostly taken up by European and Japanese suppliers, and when we

talk about equipment and spare parts, this problem needs to be addressed in a different fashion. If we have companies who have a constant demand for spare parts, why not set up right there, in Russia, close to us, a warehouse with spare parts. Then they would not have to transfer spare parts across the border at the eleventh hour. I can say that Norilsk Nickel, as a large corporation, virtually has no problems in securing permits to transfer such goods. Usually, we deal ourselves with transportation issues. We are major shareholders in shipping companies and even have our own airline. So we have opportunities to transport such goods.

Finally, I must say that I am an optimist. And I am not alone when I talk optimistically about the Russian market. As you know, after the revolution in the midst of Soviet power, Armand Hammer, who is well known to everyone of you, started his business from zero and became a billionaire. He said, in his own words: Americans, do not wait until another revolution happens in Russia. So I hope that this is your attitude as well. Thank you very much for your attention.

(Applause)

Michael Reshitnyk, Co-chair of the Seminar

Thank you very much, Mr. Kotlyar. Perhaps I could just mention some details about the presentation that Norilsk will be making tomorrow evening at seven o'clock. It will be in Tudor Rooms 7, 8 and 9 at the Royal York, and I certainly invite those of you who are interested to participate.

Our next speaker this morning is Mr. Ross Beaty, who is Chairman and Chief Executive Officer of Pan American Silver Corporation. Ross is a mineral exploration geologist and was born in Vancouver. He received his first degree, a Bachelor of Science in geology, from the University of British Columbia (UBC) in 1974. He went on to receive his Master's in Science from the University of London, Royal School of Mines, in 1975 and came back and took his law degree in 1979, again at UBC. As I mentioned, he is Chairman of Pan American Silver Corporation. They produce some 3.2 million ounces of silver per year from their mine in Peru, and they are purely focused on the acquisition and development of silver reserves and silver production. Ross will be giving us some comments about their current efforts at the Dukat Silver mine in Magadan.

Ross Beaty, President, Pan American Silver

Thank you, Mike. And good morning ladies and gentlemen. Well, until November last year, we actually had a very successful project in Russia and in 1999, in fact, I think we were the only foreign investment project of any significance in the Russian mining sector. There was a project called Julietta that Bema Gold is working on. It was more or less sold. Many other companies have come to Russia and left, but we persisted in Russia because we had faith in the country and faith in our project.

I will give you some history of our involvement in Russia. We started looking at the Dukat deposit in 1996. We successfully won a tender... an international tender for the mining rights, in late 1997, a tender that was organized by the Ministry of Natural Resources and the Magadan Oblast. We signed a mining license with the Ministry of Natural Resources. In fact, the current Minister, Minister Yatskevich, signed it himself in early 1998. We completed two feasibility studies in 1998 for the commercial development of Dukat with modern economic rules and modern facilities. The project had gone bankrupt in 1995. We stayed with the project through the August crisis. We were one of the only companies to stay in Russia during this difficult time. We survived and stayed with Russia during the political turmoil of 1998 and 1999. We started construction and development of the Dukat deposit in 1999 and, by November, we had spent US$35 million on this project, all financed by our own equity. We had 300 Russians employed at the site, and we were scaling up to full-scale construction by December and January, which would have employed 600 Russians.

We had arranged full financing for this project, with both our own equity and a bank loan from five different banks. You can imagine the difficulty of arranging financing with five different banks, led by the IFC, part of the World Bank, and the EDC, part of the Canadian government. We had banks from Canada, the U.S., Holland, Germany and England.

Now you can imagine the difficulty of getting through the credit committees on a project in Russia during these difficult times in Russia, with all of the negatives that other companies and other people were throwing at the country. We were a champion of Russia in 1999. We were trying to say to all of these people, those negatives are true to some degree but we believe we can overcome the problems and succeed in this project. Have faith in us, we will make it happen and in fact we had many, many successes in 1999 with many supporting Russian government ministries and individuals.

This was a test case. It was the only major development, as I said, going forward last year. We hoped it would be a test case with great success, that other companies would then follow, from Canada, from America, from other countries. During 1999, we obtained all necessary permits to develop this mine: environmental, operating, construction. We obtained all the necessary licenses and approvals, strictly in accordance with Russian laws. We paid no bribes either. We asked for no special favours. We conducted all of our business in a completely open and legal way. We made a number of promises, and we lived up to every one of our promises. We made no promises we could not live up to. We demonstrated a commitment to the highest ethical, environmental, health and safety standards. And this commitment was rewarded by support in Russia. People who knew what we were doing, knew we were a good faith company. We were working to develop not only Dukat but also Russia.

And we were not there for our health. It is a difficult place to work in, and we were not there for our health. We were there because we wanted to make money. We wanted to make profits and,

through making profits for our shareholders, we would also generate an enormous amount of wealth for Russia. That is what foreign investment brings to Russia, like it brings to Canada and other countries.

We were supported by GKZ (the State Reserves Committee) and Gosgortechnadzor (the Russian mining permitting ministry in Moscow). The Magadan governor was tremendously supportive. He is a very pro development, pro foreign investment, pro getting-things-going-man. He is very, very positive for these kinds of projects. I strongly support the region for any Canadians going to Russia. The Ministry of Ecology supported us. Mr. Rybkin from Gohkran was involved in many discussions with us over the last two or three years. Strong support. We had tremendous support from the presidential administration, Mr. Voloshin. In fact, we received a presidential decree from Mr. Yeltsin last year. And you can imagine the difficulty of getting a presidential decree in Russia these days. It is not a simple thing to do. Getting that decree demonstrated a lot of support for the project, both in Magadan and in Moscow. The Ministry of Economy, the Central Bank, we had a lot of people working with us to make this successful. Why? Because they understood that this was a long-term project that would generate a tremendous amount of hard currency and new technology imports, that some state-of-the-art Canadian mining equipment was coming in, that we would pay our taxes promptly, and that we would pay fair wages. It was a long-term project for the benefit of Russia and our shareholders.

Well, on November 30th, there was an auction held for some assets that we needed for our development project, and that were worthless, absolutely worthless, without the license that we had for the development of Dukat and the development plan we had. This auction was considered a mere formality, it was required by the lenders to... the project lenders... or Dukat lenders... and we felt it was something that we could not even bid on until we had received the presidential decree and Central Bank approvals of the project loan documents. Those were received at the end of November. The auction was held at the end of November. We bid and, to our absolute astonishment, another company showed up and actually won the auction. This company is called Kaskol and... well now we know who they are. They have a number of businesses in Russia, they are not a mining company, they have no successful mining development at all. They had never actually visited the mill, they had never visited the mine and they declared that they were going to take our license away. They were going to attack our presidential decree, they were going to attack the tender. They attacked, and made some very misleading, inaccurate, press releases calculated to cause our share price to drop. They stated that our company would go bankrupt, that we would become worthless without Dukat, and that we would go away from Russia, allowing them to take on the project.

Well, unfortunately, you have a situation where we let them come in. We certainly controlled the auction timing to some degree. We asked for it to be held when it was appropriate, and we made a clear error in allowing this to happen. We acknowledge this, but at the same time what company in the world would come in and spend US$12 million to buy an asset that was

worthless without something that someone else owned, and in fact had been done without any proper due diligence. This is not, to me, good business. This could only have happened, in our opinion, with the feeling that this project would be attacked successfully and would be taken away from us, allowing them to come in to develop the mine in due course. They stated that they would attack our license. They did! At the end of January, they sent a letter to the Minister, insisting that the license was defective for a number of reasons. The Ministry of Natural Resources held a license review. Last week, in fact, in Magadan a Commission was appointed; they reviewed our license, they went through the points of the license, and reviewed the compliance of the license over the last two years. Fortunately for us, last Friday the license was declared to be valid and in good standing. The license attack failed and now it is very positive for us because now we know that the basis for our project, which is the license, has been upheld.

The deliberate strategy to injure our share price... I am not sure if it worked or not, but certainly our share price has gone down. Pan American, though, has many other projects. We have a very good mine in Peru and, in fact, yesterday we announced that we have bought another mine in Peru. We have a large silver mine developing in Mexico, and we have other projects in the U.S., Canada, and Bolivia. So we are going to be fine with or without Dukat. But, of course, we want Dukat. We have spent three years of our lives, US$35 million of our money developing Dukat, and we certainly are not going to go away from Russia unless we absolutely have to. It is an option open to us, but it is not an option that we are considering today at all. It is impossible to predict the outcome at Dukat.

Now, what has happened because of Kaskol's actions? Instead of two successful mines—one of them Dukat, with our money, and another which should have been the target of this US$12 million of Kaskol's money—you now have nothing.

How does this help Russia? How does this help anybody? Instead of this, you have a fight. Now, the mining world is a very small world. It is international, but it is a very small world. That is why the Dukat conflict now has been brought up to rather high levels in terms of media attention. It is the only project that was proceeding in Russia and, therefore, is a test case that the world is watching. It is being reported on by the Wall Street Journal and by the Northern Miner, which is the Bible for Canadian mining companies, by the Mining Journal in London. It is being watched very closely. It now is another black eye for Russia. This is not the fault of the Russian government at all, other than those people in the Russian government who may have had an involvement, maybe with Kaskol, in encouraging them to do this rather rash act. It may be that they encouraged Kaskol's partner, which is a company called Polymetall, to come in. We do not know. Whatever the case, we now have no development of this project. It has been suspended until our situation is resolved. We are taking some issues to court in Russia. This is not what we want to do. This is forced on us. We are involved in some kind of crazy public relations war with these people, that causes all kinds of journalists to be happy but it does not develop any positive result for anybody.

We are trying to resolve the situation through discussions with Kaskol. I hope this will succeed. This is the best way for us to go forward. This takes two parties to agree to, and both parties have to be reasonable. We have never, ever, been involved in a fight. We have never been involved in litigation, either against us or by us. This is the first time that we have been involved in a dispute that seems to me very illogical, puzzling, but it is a fact of life. We have to deal with it.

We need support from Russian government administration people. Because without the support of the Russian government, we cannot proceed with this project. We need to know whether Russia is for or against foreign investment. Clearly, from the very top, we think the answer is yes. And we are very encouraged to hear the kind of rhetoric that you have been hearing this morning. We hope that this will be put into action. We have had great support, as I said, from many people in the Russian government, most recently evidenced by the successful conclusion of the tender challenge last week. We will see what happens. It is a tragedy to me that this project has now ground to a halt. Absolutely absurd and beyond my comprehension. But it has happened. We hope that it will be resolved. We want to get it going again. We thought this would be really a spotlight of success for Russia. We thought this was going to be a light that was shining in a kind of dark perception.

This perception is not just people in this room. As you may know, last year Russia was declared the worst country in the world for foreign mining investment in an independent survey of forty-five of the world's biggest mining companies. That is the fact. Not the tenth or the twentieth, but the worst. These are not our words, or anyone else's words here. That is the rest of the world's mining companies saying this. I had hoped that Dukat would be a direct challenge to that opinion and that we would be able to say... "That is wrong, that is a bad perception. What we have done in Russia is we have overcome this problem, and this problem, and this problem, with the support of the Russian government and many people in the Russian economy". And instead, we have exactly the opposite problem.

Today, Dukat is suspended. Everybody who told me last year, and the year before, when we went out to raise money for this project, you can never make a successful project in Russia, you can never make a successful development of a mine there, go away, do not waste your money there—unfortunately now they are right. Until we resolve this problem, and get back on successful development, they will be right. I hope that does not happen, and we certainly are going to continue to work as hard as we can to get this project back on track. We do not want to waste our money building a new mill since there is already the old mill there. We can, but we do not really want to. We do not want to spend the next two years fighting these people in court. That is a no-win situation.

I am not sure today really what will happen, but I hope it is resolved very quickly because, if Dukat can get going again, this will be nothing but positive for Russia and for Canadian

investment in Russia. If in fact the project is put... if we walk away from Russia because we simply cannot deal with these problems successfully, I think that will be a serious blow to any foreign investment in Russia by any mining company globally. That is the way it is right now, and I guess we will just watch over the next couple of months and see where we go. Thank you.

(Applause)

Michael Reshitnyk, Co-chair of the Seminar

Thank you, Ross. If I could ask the next speakers to come up right after the coffee break, so we could proceed as soon as possible with the next section of the presentations this morning. We are going to take a quick 15-minute coffee break before we reconvene, and I would ask you to all be back in here by 11 a.m. Thank you.

(Health Break)

Okay, we are not too far behind. As far as seminars go on Russian content, we are probably ahead of normal developments. Our next three speakers will be continuing in the vein of our earlier three speakers, talking about developments in the Russian far east, particularly Magadan, and some of the experiences of another Russian and Canadian company in their activities in Russia.

I am very pleased to have with us today Mr. Ilya Rosenblum. Mr. Rosenblum was, in his previous lifetime, head of the Russian Far East Geological Committee, and had some 12 000 geologists working under him. He established the first independent gold metal company in Magadan, Geometall; was instrumental in the negotiations for the establishment of the original Kubaka joint venture with Cyprus Amax; was also President of Western Pinnacle, a Vancouver incorporated company; and most recently was elected the Chairman of the Magadan Duma and sits in the Russian Federation Council. I think I have got that right. Mr. Rosenblum...

Ilya Rosenblum, Chairman, Magadan Regional Duma

Thank you very much, Mr. Chairman. Ladies and gentleman, good morning. If I may, I would like to share with you the Russian view of the experience involving western investment in the Magadan province. The presence of world-class, world-scale precious metals deposits promises a good future. About ten years ago, that was the foundation, the reason, for the tremendous interest in Magadan from senior and junior gold and silver mining companies from the West. The crisis in the world's precious metals market over the past years, as well as other risk factors, has not allowed the realization or development of all the projects. But in Magadan, for the first time in Russia, we have gained tremendous experience in attracting investment first and foremost from the West to the precious metals industry.

Let us look at specific deposits and projects as examples. The Kubaka, that has been mentioned by Mr. John Ivany and others, is an example of the first large project in the gold sector of Russia with the involvement of western mining companies and financial organizations. The owner of Kubaka is Omolon Gold Mining Company, where 53% of the shares are owned by Kinross Gold Corporation and the remaining 47% are owned by private Russian enterprises. The cost of this project is about US$230 million, US$142 million of which are credits from OPIC, EBRD and Amro Bank, and US$43 million are direct investments from the western participants in the project. The balance is from the Russian companies, through credit extended by the Russian federal government to Magadan Province for the development of the local mining industry.

Mr. Ivany perhaps extolled the most attractive part of what I anticipated to say in my speech about what a nice mine we built there, which, despite all the taxation problems and other problems, has perhaps the lowest cash costs in the world at about US$140 per ounce. It is one of the best enterprises built in Russia, and certainly is of world class quality. About US$4 million, if I heard correctly, in tax deductible funds are left available to the enterprise. These funds are for replenishing the mineral resources. The money that is left is specially earmarked, and left with the Omolon Gold Mining Company to reconstitute the resources. The Omolon Gold Mining Company is engaged in active exploration work. Despite all the problems, I must say the Omolon company is current with loan payments and, in general, we must say it is quite a successfully operating enterprise which was built in Russia with the support of western investment. It is perhaps one of the most positive examples of such an experience.

Without dwelling any further on what Mr. Ivany talked about, characterizing the Kubaka mine, I would still like to reiterate the most salient points which contributed, in our view, to the success of this mine. First, it is the high grade of the ore body that allows us to use, in a very efficient way, the financial support from the regional and federal authorities. That financial support, to the tune of US$40 million, alleviated some of the risks. The involvement in this enterprise of senior western mining companies and the wonderful, brilliant team of western managers and specialists who brought western experience and used to the maximum the local Russian resources, taking into account the local mentality and local conditions. The special nature of the agreements that have been concluded, as well as the very high investment into this enterprise, have resulted into challenges to do with the repayment of the loans that were extended to this project. And quite a few governmental agencies are somewhat unhappy with the situation, and this may affect the relationship with the Omolon Gold Mining Company, and may it make it more difficult for future government contributions into the development of the local industry to come about.

Let us look at the situation with the Dukat mine. The license for the extraction of gold and silver was won in February 1998 by Serebro Dukat, a Russian company registered in Magadan and established by Pan American Silver, a Canadian company. Pan American Silver owns 70% of Serebro Dukat while Geometall, a Russian company, owns the remaining 30%. An annual production of about 500 tonnes of silver and about one tonne of gold is envisaged for at least the

next fifteen years. It was also forecast that, after the doré is produced in situ, Dukat will produce a concentrate that will be exported to sell the gold and silver in markets abroad. Serebro Dukat was planning to use new high tech equipment and lease existing equipment from the presently bankrupt Dukat GOC (former owner of Dukat) with a buyout at the end of the lease term. Based on this agreement with Dukat GOC, the old plant will be rebuilt to produce concentrate. The production could realistically begin in the fourth quarter, at least a year before the term stipulated in the license agreement.

A feasibility study was prepared by the company. It was accepted by all the approving agencies. The mining plan was developed and approved by the State Resources Committee of the Russian Federation. All the pre-construction requirements for this project were completed. It was very important to obtain the presidential decree (signed in October 1999) that allowed the export of concentrate over the next four years. That, together with the deposit's huge reserves of high grade ore, in fact minimized all the risks and demonstrated the real support for this project at the highest government level.

The total cost of this project to date, since the license was received, is over US$35 million, but the implementation of Serebro Dukat's development plan has been suspended. At the end of November 1999, there was an auction for the Dukat GOC property. The company lost the tender for the mill and the tailings storage facility, having offered US$8.3 million against the US$12 million that was offered by Kaskol. In our opinion, such a serious snag in the implementation of the Dukat project should not be associated with economic risks or political risks that are usually talked about in connection with projects in Russia. In our opinion, it was a serious mistake by the management, which was the result of the difficulties caused by Serebro Dukat's multistage decision-making procedure. It is difficult for me to talk about this but the management of Serebro Dukat and Pan American Silver completely ignored the recommendations of Russian partners. They listened too much to the advice of western legal companies and found themselves in a situation where they ended up with an auction of a bankrupt enterprise. They should have used totally risk free procedures to buy out that enterprise through the tender process.

Now, Serebro Dukat is trying to exercise its right and has proposed to buy out the property from the new owner, the Kaskol Group of Companies. A few days ago, the Ministry of Natural Resources Commission completed its license compliance review. I would like to clarify that any company, before it starts developing any mine or deposit, must enter into a license agreement with the owners of the deposit on one side and the Ministry of Natural Resources and the local administration on the other side, and all parties assume certain obligations thereby. The commission has determined that the terms of the license are being fulfilled. There are no grounds for revoking the license. One of the victims in this situation, which has suffered the most, is the province of Magadan, which should have received an influx of more than US$200

million into its budget from the Dukat project and more than a thousand jobs would have been created as a result of its development.

On March 3, 2000, Governor Tsvetckov publically supported the project, but we count on the active participation of Pan American which lately has been quite inactive and we, quite frankly, no longer understand their real objective. We can provide support, but it is up to the company to solve the problems it is facing.

As another example, let us look at the Julietta silver and gold deposit. It contains almost 30 tonnes of gold equivalent with a grade of one ounce per tonne, and there is very good exploration potential. The exploration license is held by Omsukchan, a local company, and Bema Gold Corporation of Canada has a significant share in the project. This project was supported by financial resources from the State Gold Credit Program and Omsukchan has already paid back these funds. The company spent a significant amount of money on exploration, which resulted in significant tax deductions. In 1998-99, Bema Gold applied a new technological approach in its feasibility study and it lowered significantly the capital investment requirements for this project.

According to information from Bema Gold, the schedule for the Julietta project is as follows: January-April 2000, completion of exploration and project design; from June 2000 to June 2001, construction and commencement of production. Over 110 000 ounces of gold equivalent per year will be extracted over the next five years. The envisaged mine life is 9 years. At a silver price of US$5.50 per ounce, the Internal Rate of Return (IRR) is going to be more than 40%. The capital requirement of the project is about US$40 million and, according to plan, a line of credit should have been opened in January-February 2000. Although we have new information that leads us to believe that the signing of credit agreements with the banks has been postponed, this last circumstance is both puzzling and of concern to us. The reason being that we have already postponed twice the date of the start of production and it is not very likely that the company will be able to survive its license review. The company has to start construction within the next two to three months. Otherwise, it will find itself in a critical situation and we do not want to see another set of discussions about the challenges related to the Russian investment climate.

In our opinion, this analysis of the most important mining projects with western participation in the province of Magadan leads us to believe that perhaps the risks have too much influence on the outcome of these projects. Companies let themselves be influenced too much by the risks, or their belief in those risks. At the same time, the 6.5% export duty, adopted by the Russian Federation government, is going to have a negative effect on foreign investment in gold and silver deposits, especially bearing in mind current world markets. If we look at deposits with grades of 2 to 4 grams of gold per tonne, it would be very difficult to develop such projects profitably under these conditions. At the same time, the mining companies can still secure rights to deposits with minimum risk involved.

As Minister Yatskevich already pointed out, if a mining company has an exploration permit or license and they make a discovery, they can obtain a license to develop such a deposit without any challenge or tender. And taking into account that the territory of the province of Magadan, based on already discovered and inferred deposits, has an exploration and development potential comparable to Australia and other mining countries, we hope that investment in gold and silver mining in Magadan will continue. Thank you very much for your attention.

(Applause)

Michael Reshitnyk, Co-chair of the Seminar

Thank you Mr. Rosenblum. The next speaker this morning is Mr. Timothy Haddon who is CEO and President of Archangel Diamond Corporation. Mr. Haddon has been a mining engineer for thirty years, working all over the world, and has worked for such companies as Texas Gulf and Amax. Archangel Diamond Corporation has been in Russia since 1993, and Tim himself has been active in Russia since 1997. Tim...

Tim Haddon, Chief Executive Officer and President, Archangel Diamond Corporation

Thank you very much, Mr. Chairman. I would like to welcome all of the guests, and particularly our Russian friends. Today I do not know if our Canadian friends know that it is a holiday in Russia. It is Women's Day. And so particularly to our Russian women, we pay respects.

I would like to talk today about Archangel Diamonds and our experience in Russia, because in some ways it is the true success story of Canadian and Russian cooperation and in other ways it is a perfect example of some of the impediments to development in Russia.

We have been in Russia since 1993 when a state agency from the Arkangelsk region was traveling the world, looking for foreign participation and exploration. The company, Arkhangelskgeoldobycha (AGD) came to us and said that they would like to tender for some diamond exploration areas but they did not have the financing.

In December 1993, we signed an agreement with all the terms and conditions, that we would provide all of the financing until completion of a feasibility study on whatever we found, if we found anything. At the time, the law did not allow for licenses to be held by anything other than pure Russian companies. And we had lots of other terms to the agreement. We entered into this agreement, commenced work in 1994 and one of the conditions we had was that when the law did change to allow for licenses to be held by joint Russian and foreign companies, that the license would be transferred. And we formed a company—a public open Russian joint stock company called Almazny Bereg in 1994. The exploration went very well. We won two licenses by tender and we performed significant exploration in 1994 and 1995. In late 1995, our partner,

who had been a state company (and everything had worked perfectly when it was run by the state) was privatized. And that is when our problems began. The privatization was done, as has happened in a number of other instances in Russia, by what I would call unorthodox business practices. And in early 1996, we had a unique thing. We found a new diamond pipe.

This was not a discovery made during Soviet times. This was a brand new creation of Russian wealth that occurred in February of 1996. It was found by Russian geologists working with us, the Canadian partner. It was a joint success story. It was not western technology coming in and doing something new. It was Russian technology, Russian experience in the region, working with our people. So we consider this a true success and the type of project that I think this conference is striving to achieve.

At that time, it was possible to transfer licenses to jointly owned companies. There was a presidential decree that allowed that to occur. We requested our partner to transfer the license and they refused, for various reasons. We have had about ten different reasons given to us as to why the license could not be transferred. Different interpretations. In late 1997, our partner tried to remove the license from AGD and put it into his own company. That rang alarm bells to us, and we then were forced to go to our original agreement which had an arbitration clause in Stockholm. We also went and spent a lot of time with the Ministry of Natural Resources and other government officials. And I would like to state for the record, every government official I have dealt with in Russia has been extremely supportive of our situation, has tried to find solutions to our problem, has worked as closely as possible with us and I have nothing negative to say about any government official, either at the regional or federal level. Unfortunately, as I was told by one government official, if you are dealing with the oligarchies, you have got to do what they tell you or get out. That I think has changed, and I will talk about that later. But that occurred in 1998.

Subsequent to that, we have been in all sorts of settlement discussions. We have met with various government ministers that have tried to assist us, and have come very close. But at the end of the day, our unorthodox Russian partner was not willing to transfer the license. And if you talk to him, he will say that I am the problem, that the western side does not understand what he wants, and he is trying to change things. He has tried to make it a case of he is protecting Mother Russia against the foreign intrusion. And I think that is a very dangerous situation if we make this an issue of nationalities, because it is not. It is a business issue that we are trying to resolve, we are trying to work in cooperation with our Russian partners to create new wealth that is for the benefit of the Russian state as well as for our profit. Our joint venture is a 60% Russian owned joint venture with the Canadian partner being a minority. We fully understand that any development in Russia has to be Russian controlled, Russian managed, and essentially a Russian project. We are guests in your country. We understand that. But having said that, we do expect obligations to be met by our partners, and we do expect to have a fair and level playing field.

We have been very encouraged by our meetings with Minister Livshits. He has indicated exactly that Mr. Putin, the Acting President, has recognized the problem, that there are significant amounts of what I will call unorthodox business practices occurring in Russia today that have been significant impediments to foreign investments. I was very encouraged by Mr. Putin's statement last week, saying just that. That to attract foreign investment, some of these practices have to be stopped, and we have to have a level playing field for the foreign investor and the Russian investor. And I think while this has not been categorically stated as a problem, I think it is an underlying problem in a lot of the issues that you will hear today. We continue to work and try and reach a solution with our partners, with the help of the Russian government, and Mr. Livshits has indicated to us personally that, if need be, he will get the President involved in solving our problem. I do not want to do that. I do not think that is the way problems should be solved. They should be solved by the business people themselves. And, as I say, we will continue to try and do that and we think we will be successful.

We have spent US$30 million to date. We ceased funding the project in June 1998 until the license is transferred into our jointly owned company. We are still hopeful we will achieve that. We reached what we thought was an agreement in June of last year that would allow that to happen, but our partner did not perform under the terms of that agreement and we have had to reinstate arbitration proceedings in Stockholm. Again, that is a counter-productive thing. We have wasted millions of dollars on legal fees. It is a waste of money and we do not like to waste money. We want to invest it in the ground.

There are people waiting to work up in our region, in Archangelsk. It is a whole new diamond field that is waiting to be developed, that will really change the diamond industry as did the Ekati mine in the Northwest Territories of Canada. We very much want to be a part of it with Russian investors, responsible Russian investors. And we look forward to solving this problem. We are there for the long-term, and we do appreciate all the support we have received from both the regional and federal governments. But until the unorthodox business practices of some people (and it is not all, it is only a few) are corrected, I think a lot of us foreigners will have trouble. Thank you very much.

(Applause)

Michael Reshitnyk, Co-chair of the Seminar

Thank you, Tim. Our next speaker this morning is Mr. Sergey Dokuchaev who is the Chairman of the Governing Board of Lanta Bank. Mr. Dokuchaev was born in 1957 and graduated from the Novosibirsk Institute of Construction Engineering in 1979. From 1992 to 1994, he was appointed Director of the Moscow Representative Office of the Siberian Regional Association Soglasie and Novosibirsk state owned refinery. In April 1994, he was elected Chairman of the Governing Board of Lanta Bank, which has undergone some dynamic changes under his

supervision. Lanta Bank was established by a number of large enterprises in the mining industry and, perhaps, I will let Mr. Dokuchaev talk about that and ask if the bank serves the needs of major Russian enterprises dealing in the mining and treatment of precious and non-ferrous metals in Russia. Mr. Dokuchaev...

Sergey Dokuchaev, Chairman, Lanta Bank

First of all, at the beginning, I would like to congratulate all women present here today because it is International Women's Day, March 8th. In Russia, this day is a holiday, and we celebrate it as a New Year's Eve, as a big holiday. It is very symbolic, because, if I may say on behalf of every man present in this hall, that what we do in this life we are doing for our beloved women. I think that all the problems, all the issues which we discussed today will be solved.

I agree with all the previous participants that we have many problems in Russia related to the legislation. I support all the persons who have spoken here before me. But I must say that the working Russian legislation was developed during the last ten years, and many things were achieved. Remember that, in 1995-96, we met here and many persons said, Sergey, it is impossible to export gold from Russia. Today, we are exporting gold. But in 1996, we would have gone to prison for that. Then there was the question of license transfers, which could not be done at that time. Minister Yatskevich told us about the progress in this area and I will not repeat what he said.

Of course, my colleagues and I would like to see lower levels of taxation, but we should agree that this problem exists in other countries as well, and we have to respect the laws and regulations in our respective countries. We may like it or not, but in Russia the people are working and Canadian and Russian companies are begining to understand that there is something positive happening there. There will be order, and Mr. Putin has stressed it in his statements.

Now, I would like to give you an example. Three years ago, we began to prepare our project to present it to the public and the Toronto Stock Exchange. To prepare all the documents and filings, we invited a Canadian partner. We were aware that we had to pay, and we invited an engineering company, Watts, Griffis and McOuat. They prepared a very serious engineering report as per the requirements of the Toronto Stock Exchange. We understood and agreed that these requirements are justified for the Canadian exploration companies. To prepare legal filings, we invited a Canadian firm which prepared documents to meet the requirements of the Ontario Securities Commission. In the case of Pan American Silver, I can assure you that if, as Ilya Rosenblum said, Russian experts would have been retained or listened to, that the decision would be different than the one made last year. I think that local professional experts and legal advisors have to be retained for Russian projects, and, if that was the case, we would not have the problems that we have in many projects.

It is very profitable to extract precious metals in Russia. I will give you an example. Four years ago, when we began to participate in (gold projects) tenders, Lanta Bank had only one million ounces in reserves. But, nowadays, the geological reserves of Lanta Bank projects amount to 19 million ounces and Lanta Bank supports three very advanced projects.

We invested more than US$20 million in the Darasun project, which has estimated reserves of 10 million ounces. Lanta Bank funds were used for modernizing the mill and the mine is now in production. This year we invested US$4 million in exploration, in the construction of a new shop and in a feasibility study for the construction of a new mill. We plan to invest more than US$60 million by the year 2005, and to produce more than 6 tonnes of gold per year.

We have a project along the Bolshoi Kuranakh river in the Aldan region of Yakutia. The reserves for our Yakutian open-pit project are 2.9 million ounces of gold. Some modernization and rebuilding has to be done on the site. This year we are planning to produce 24 000 ounces, utilizing Australian technology. The equipment that we use is capable of dredging material from up to 18 meters deep, which makes it a very prospective project.

The next project is a mine, with close to three million ounces in reserves, which required modernization. Lanta Bank invested more than US$10 million in a new mill and the modernization of the existing plant. Next year, we project that this mine will produce 2.5 tonnes of gold.

Lanta Bank has other projects, and I think we can discuss all these opportunities on a working basis. These projects were all presented to the Mining Working Group of the Canada-Russia Intergovernmental Economic Commission, and I think that the creation of this group was a big success. But this Working Group is not working well. We have to choose a pilot project in Russia, determine its participants from the Russian side and from the Canadian side, and under the control of all the public authorities begin the exploration and exploitation of this project, and show and illustrate on an existing legislative basis, that it is open to foreign investors. To show that it is possible to work in the mining industry as it is, or even better than in the oil and gas industry. That is why I propose to select a concrete project, and I think that today we will discuss such items later during this seminar.

At the end of my presentation, I want to tell you a story. There are many metals in the world. Copper is to make cables. Aluminum you can use to make planes. But, gold is a very foul metal, because it causes only disputes and litigation. That is why I suggest that seminars like ours should transform gold from the foul metal that it was before into precious as it should be.

Review of Morning Session and Discussion by Participants

Michael Reshitnyk, Co-chair of the Seminar

Thank you, Mr. Dokuchaev. I have to say that we have done very well in terms of our timing. We are only about fifteen minutes ahead of time and we have a few minutes for some questions from the audience, for any of the speakers that are here right now, or any of the earlier ones that are in the audience. So I encourage you to go up to a microphone, because we have simultaneous interpretation, and pose the question that you may have for any of the earlier speakers.

Question from Mr. Gerard Kreeft, Energy Wise

Mr. Chairman, just a general question to the panel and people that participated this morning. My name is Gerard Kreeft of Energy Wise. We are a company out of Holland that does a lot of work in the mining sector in central and eastern Europe, and also in central Asia. My question is more of a general nature. The background paper was written in terms of the legislative progress that you are developing between Canada and Russia. Are there certain precedents that you would also find useful in terms of the other STAN countries? This is where we are focusing in the future, and certainly I think some of the fallout, or the learning curve, that you experienced could be very helpful for countries there. I am thinking of Kazakstan, Tajikistan and Uzbekistan.

Michael Reshitnyk, Co-chair of the Seminar

Keith, I do not know if you were listening to that question. It was a question with respect to the "Concerns" paper. If I remember correctly, its application to the problems that may have applied to some of the other STANS and whether or not we are taking those developments into consideration in our paper.

Answer from Keith Brewer, Co-chair of the Seminar

Well, I would not want to speak on behalf of everybody who had input to that paper. But, just to be absolutely clear of the context in which it was written, it simply was for discussions with our Russian colleagues, on the basis of Canadian company experience. We wrote it as a "check list" of issue areas, and that is really what it was meant to be. It was distributed, but not very widely. I would not want to comment on whether the contents with respect to Russia have had any impact on what is happening elsewhere. And I would not want to think the '*Concerns*' paper should, in fact, be anything more than an expression of Canadian company experience in Russia. What I tried to express when I was speaking this morning, was "let us be friendly enough to write down the issue areas. They have substance to them, and let us just see if there is a record of

progress, by some criteria." That is my interpretation of the context in which we wrote the '*Concerns*' paper, and I would not want to put it any broader, although it is quite precise about the subject areas which are important to Canadian companies in the case of Russia.

Michael Reshitnyk, Co-chair of the Seminar

Thank you, Keith. Any other questions? Please...

Question from Mr. Jack McOuat, Watts, Griffis and McOuat

Good morning, my name is Jack McOuat. I am with a firm of consulting geologists, engineers called Watts, Griffis and McOuat. We have had the pleasure of doing a lot of work in various parts of Russia including for people such as Lanta Bank here, as mentioned earlier. We have heard a lot this morning about the levels of taxation, especially on revenue-based taxation in Russia, and that being an impediment. Someone made mention of the PSAs, the Production Sharing Agreements. I am curious as to whether or not any PSA agreement has yet been signed.

Michael Reshitnyk, Co-chair of the Seminar

Mr. Strugov, who is the Director of the PSA Nedra Centre at the Ministry of Natural Resources, is probably best positioned to answer that question and will be speaking on it in the afternoon, extensively.

Answer from Alexander Strugov, Director, Nedra Centre/Production Sharing Agreements Section, Russian Ministry of Natural Resources

Let me try to respond briefly. Up to now there are four such PSA agreements: Sakhalin One, Sakhalin Two, Urengoy and Samotlor. And there are another seven agreements in the pipeline and I am going to dwell on it in somewhat more detail in my afternoon presentation.

Michael Reshitnyk, Co-chair of the Seminar

Last call for any questions before I provide a summary of the morning proceedings. Just one housekeeping note. Before everybody leaves the room, if they have not left one of their business cards at the registration desk, please do so. This will not only assist us in making the luncheon arrangements, but also to provide a record of the attendees at the session here today. I understand that the Canada-Russia Business Forum will be providing a summary of the session today, and a list of all of the participants. This will be posted on our web site at some point in the near future, www.canada-russia.com. So it is very important for us to have your business cards.

Perhaps if I may just briefly summarize what we have heard this morning. In the introductory session, we heard Mr. Ianno, Minister Yatskevich and Ann Collins talk about the willingness to cooperate and the need to move forward with some new legislation, some very positive statements for the need for openness, and discussion of these changes. Ann talked about the need to overcome some of the current difficulties Canadian companies are having in Russia, and that we are certainly at a watershed point in terms of the perception of western companies of their investments in the Russian mining sector.

In a subsequent session, Mr. Ivany from Kinross talked about the characteristics of their deposit, that they were generally very pleased with the developments up to a point. There were some difficulties with respect to revenue-based taxes, and the inability to hedge future gold sales, and that this was detrimental to the return on investment to the investors in this project.

Mr. Kotlyar, from Norilsk Nickel, talked about their company and its operations. He mentioned that, yes, there is a taxation problem there, but that perhaps it is not any more serious than other regions of the world and commented that there is a need for some of the Russian legislation to correspond to world practices and some need for improvement of the investment climate in Russia.

Ross Beaty talked briefly about the success that they had enjoyed in their project prior to November 1999, and that they had stuck with their project through the August crisis and subsequent financial crises in 1999, and that, currently, the project is being jeopardized by the actions of a Russian company, Kaskol. Mr. Beaty stated that he felt, again, that the resolution of their situation would be a bellwether for investment in the Russian mining sector.

Mr. Rosenblum, from the region of Magadan, reviewed the three current projects that are active in Magadan. He talked about some of the difficulties that some of these might be having. He felt that there was great promise in the future of geological deposits in Russia, and encouraged companies to come forward and look at opportunities in the region.

Tim Haddon reviewed his project, Archangel Diamond Corporation, and their diamond deposit in the Archangelsk region. He talked about the difficulties being caused by some of the unorthodox practices of their partners and the ensuing problems created by this, but also stressed that they have received nothing but support from all of the Russian officials that they have talked to.

Mr. Dokuchaev reminded all of us that this is Women's Day today, lest we forget, and reminded me that I should call home and make sure that I express this to my wife and three daughters. So it is particularly close to me. He briefly explained three projects that Lanta Bank is involved in, and suggested a pilot project should be undertaken by the Mining Working Group under the Intergovernmental Economic Commission.

This is the end of my role today, so I would certainly like to thank all of those speakers that spoke this morning, and those that agreed to participate this afternoon, for coming to the session. It must say something about the spirit of Canadians and Russians willing to get together to discuss problems, when most other investors in the mining sector are not interested in coming. We are here, as mentioned earlier on, to discuss the issues facing Canadian and western investors in the Russian mining sector and seek, over the short-, medium-, and long-term, to resolve some of these issues. So, again, thank you for coming this morning. The luncheon is outside. We are due to come back into this room at 1:30 for some very interesting presentations from a number of the international financial institutions. And last, but not least, some very interesting presentations from our Russian officials who are here today, which I think we will be able to talk about at the end of the day, in comparison to some of the benchmarks that Keith mentioned earlier this morning with respect to issues and concerns. Thank you.

(Applause)

Introductory Remarks for Afternoon Session

Keith Brewer, Co-chair of the Seminar

Good afternoon everybody. Let us get underway. I would just like to draw your attention to the excellent arrangements that we have here, and would like to acknowledge the Canada-Russia Business Forum and the volunteers in that organization who have kindly made this possible. Boris Aryev left before he could hear me say that, but I just want the rest of you to know that these things do not happen without some planning.

Now let us get underway for the afternoon session. From the international financial agencies, we have a number of very important speakers here. We will start with the view from the Multilateral Investment Guarantee Agency (MIGA) of the World Bank. Mr. Mamadou Barry has kindly consented to come here. Mamadou Barry is an investment promotion officer at the Multilateral Investment Guarantee Agency. He is a geological engineer. He has worked in Guinea. He joined the World Bank Group in 1993, transferred to MIGA in 1997 and was a guarantee officer responsible for underwriting political risk insurance. He has a very impressive background... minerals engineering degree, Ph.D. in mineral economics, and let us not go on any further. With that, I will ask Mamadou to please come and give us the view from MIGA of the World Bank. Thank you.

Views of International Financial Institutions

Mamadou Barry, Guarantee Officer, Multilateral Investment Guarantee Agency

Thank you very much. It is my pleasure to give you the perspective of MIGA on the investment climate in Russia. I am sure many of you are familiar with MIGA, because most of the talk here has revolved around political risk and MIGA is the agency of the World Bank that deals with political risk. We are, of course, interested in foreign direct investment (FDI). We are part of the World Bank Group, which is a family of four. Our oldest brother, IBRD, the International Bank for Reconstruction and Development, was created in 1945, followed by IFC in 1956, the International Centre for the Settlement of Investment Disputes in the 1960s, and then MIGA is the youngest member of the World Bank, created in 1988. I cannot claim to be the youngest here, but on the podium I am the youngest organization and that is why I have been given the challenging task of keeping you awake right after lunch.

MIGA was established as a member of the World Bank to encourage foreign direct investment in developing member countries. We are interested in foreign direct investment, because that is the work we do. And Russia is one of the countries of priority to us, as are most developing countries. But mostly transitional economies also because of the slow rate of economic development in those areas. We have noted in recent years that, in terms of attracting foreign direct investment, Russia has lagged tremendously with respect to other countries with similar potential. The amount of FDI attracted by Russia is well below potential, about US$12 billion since 1992 compared to over US$350 billion for China. More than 50% of the FDI is concentrated in one area, in the Moscow area. The oil and mineral sectors seem to be some of the better performers. The recent economic crisis last year affected the flow of foreign direct investment tremendously, where we saw FDI decrease to below US$2 billion. But the trend is reversing itself, and we see an FDI increase—it was about US$3.4 billion last year.

The reason for the less than desirable performance of Russia, in terms of attracting foreign direct investment, lies mostly in the perceptions investors have about Russia. And perceptions are important. They are more difficult to change than reality. The Minister correctly pointed out in the morning that people have an over-rated view of Russia in terms of political risk. That is true, and I tend to agree with that. The fact of the matter remains that people do have perceptions, and those perceptions need to be addressed, because they are deep seated and cannot be changed over night.

People, when they think about Russia, think about high costs of operation, about a situation of an uneven playing field, cumbersome bureaucratic procedures, a complex and onerous tax system, lax enforcement of contracts, strong pressure to curtail incentives given to foreign investors. People even talk about organized crime and corruption. But that is people's perception. But, of

course, these perceptions need to be addressed. They have perceptions about country risk. They think of Russia as a country of high risk. They think of transfer risks as very high due to currency control, especially since the 1998 financial crisis. Expropriation laws are weakened by lack of enforcement and even opposition in areas by local government and even in parliament sometimes. There is a lack of independent dispute resolution mechanisms. Property rights laws are not always enforced. There seems to be a deep distrust of foreign investment and, in recent months, we have seen... at least investors have seen... indications that there might be a heightened risk of terrorism, sabotage— with all the bombing that we have seen. Foreign direct investment in mining has also been affected, and I will give you just MIGA's perspective.

As of fiscal year 1999, MIGA had one hundred and eight preliminary applications. Preliminary applications are the documents of intent we receive from investors who are looking at an area before they make an irrevocable commitment to invest. So when they are considering an area, they do come to us and tell us they would like that investment to be insured against political risk. That is what we call a preliminary application. So the 108 preliminary applications roughly represent 108 projects. These are in various sectors for a total potential investment of US$13.7 billion. Of this, twelve projects were in the mining sector, and these represented US$1.3 billion in mining investment. So you can imagine if the investment climate was right, these would be moving. We would be talking about investment last year of US$1.3 billion only in the mining sector in Russia.

Unfortunately, that is not the case as far as MIGA is concerned. Only one project advanced to the contract stage. Another project is currently being negotiated, but the negotiations are not easy, as you may know. Again, because of the investment climate. But we have to admit and recognize that Russia is making tremendous efforts to reform. And some of the current reforms are addressing the concerns of the investors. Recent regulations have been introduced for the non-discriminatory treatment of foreign investors, there is a prohibition of trade-related investment measures, the right to transfer funds and receive compensation for confiscation. International laws and standards are applied for expropriation and international arbitration on investment disputes is binding. There is even a reduction of restrictions to foreign direct investment in certain sectors. This is progress as far as Russia is concerned, and MIGA is helping Russia to persist in that direction.

MIGA helps by providing technical assistance. We have two major operational departments. One is the investment marketing services department, and through that department we have been helping Russia to promote its opportunities more effectively. We have also a political risk guarantees department, where we provide coverage against non-commercial risk for private investment into Russia. We work especially with private sector investors. In terms of technical assistance, we provide three types of assistance: (i) investment facilitation, which is, for instance, the reason that I am here to try to talk to investors and see if some may be interested in Russia and, if you are, then see how we can help so that you can materialize that investment; (ii)

we help disseminate information by electronic means, through conferences, and other media; and (iii) we do institutional capacity building through training programs and executive management workshops. We also help investment promotion agencies upgrade their software and investment promotion tools.

In Russia, we are most active in information dissemination and we have a Web site called IPANET, which stands for "investment promotion agency network." The address is www.ipanet.net. This site has been developed by MIGA to harness the information resources and functionality available with the Internet. It is in fact an information clearing house, where we have information on business conditions. This is for people who do not know about Russia. They can find some relevant information here, in order to go and do business there. Specific investment opportunities, privatization opportunities, event calendars, listing of potential partners and clients, member billboard, marketing intelligence, even investment-related news. We try to work very closely with government and other investment intermediaries to constantly update these Web sites so they can be of use to investors.

As you can see from the user profile, most of the users of IPANET are very slanted by the distribution of the Internet. North American investors are the major users, accounting for almost 50% of the total number of users. But users are from all over the world. As it stands, we have over 12 000 people who are registered in IPANET and who use it occasionally. In terms of investment profile by region again, I was saying North America is the dominant region. But in terms of the sectors, industry is the major user. We have industry occupying almost 40% of our use, and all those are investors who are looking for opportunities to do something in Russia.

We have another Internet site called Privatization Link, and that is a modified version of the IPANET. It is an on-line investment service, featuring information on enterprises that are slated for privatization. It is a marketing tool that we have given to the Russian government. It is Internet-based, and it is easily accessible. The reason for that is that we realized that privatization is actually accelerating in Russia. Privatization Link gives investors an opportunity to have ready access to up-to-date information. Privatization agencies in Russia, of course, need more effective means to reach and inform investors, which has been lacking in the past. Again, as I said, the cost of conventional advertising is very high, and this may be an alternative to reach a pool of investors that are interested in specific privatization opportunities.

This is a joint initiative between MIGA and the Canadian government. It is a $1 million, eighteen-month project. It is a joint initiative between MIGA and the Canadian International Development Agency (CIDA). The project includes technical design, strategic assessment, systems development and capacity building for Russian agencies that deal with investment promotion. Of course, all these are to change the perceptions of investors. This is the first step we use to try to interest investors in coming to Russia. We have built partnerships with the private sector development department of our sister organization, the World Bank. We have also

local counterparts in Russia, that is the Federal Property Fund and the Ministry for State Property.

We also offer political risk insurance, as I said earlier. So one area of our assistance is technical assistance, the other area is political risk insurance. We know that investors who are considering Russia for investment are concerned about four types of risk. One is transfer restriction, which is the ability, if you invest in dollars, to get those dollars converted from rubles and then take the dollars out of the country. This is a problem for most investors, especially after the devaluation of the ruble and also the restrictions put there by government. We cover any losses that may arise from difficulties to convert the money, and take it out of the country. We also cover risk arising from expropriation. We do not see outright expropriation anymore, but there is a kind of expropriation that is more subtle. It comes as a series of measures, the ultimate result of which is to deprive the investors of the right of ownership of the investment, basically forcing the investors to walk out of the investment. If this happens, we can cover any losses that may arise from these actions. We also provide coverage against war and civil disturbance. There are areas of tension in Russia, and if a business is destroyed as a result of war or there is an interruption of business because a critical transportation link has been severed as a result of war, then MIGA can cover the loss. We also cover breach of contract. This may be more important for people who are in concession agreements, or who make negotiations with governments.

In terms of political risk insurance, we have signed with Russia, in 1994, a use of local currency agreement with a legal protection agreement for foreign direct investment. Whenever we cover an investment, we can go back to Russia and ask Russia to refrain from taking any adverse action against an investor because we have signed these agreements. In terms of the local currency agreements, should an event occur where we need to compensate the investor, we have the right to use that local currency and we have that permission from the government.

We have facilitated, through political risk insurance, total foreign direct investment of US$961 million in Russia. We have an active pipeline right now. Unfortunately, it is not moving as fast as we would have liked, again because of the negative perceptions about the investment climate. We have recently approved a mining project for a coverage of US$38.5 million in terms of guarantees. One example, my last example, is the one we heard from Kinross earlier. We worked with Kinross, and facilitated their investment into Russia through our coverage of the Omolon gold mining project. Our role was that a situation occurred where this project was fully insured by OPIC—the American Overseas Private Investment Corporation. But as we heard this morning, the project changed owners. It was 49% U.S. interest and 52% Canadian interest. That means that OPIC could no longer guarantee the project for 100% because OPIC is bound to guarantee only American companies. So MIGA stepped in and reinsured OPIC for the portion of the Canadian interest and that made the investment possible. As I said, we have another project going on and we hope more projects will arise, out of the twelve mining projects that we have in our active pipeline. And again, we are at your disposal. We can provide help in terms of talking

to Russian investment promotion agencies and officials. And also, if that does not work, we can cover your risk against any losses arising from political risk. Thank you very much.

(Applause)

Keith Brewer, Co-chair of the Seminar

Thank you very much indeed, Mr. Barry, for explaining the extensive services that are available from MIGA, including all your efforts at capacity building which, of course, is very relevant to a seminar like this. We appreciated that presentation. At this stage of the proceedings, we have a slight change in the order in which the presentations will be made. The next presentation will be by Mr. Mark Rachovides of the European Bank for Reconstruction and Development.

Mark Rachovides is currently working on a variety of oil and gas and mining projects in the Former Soviet Union (FSU) and Eastern Europe. He is the operation leader on the EBRD financing of two major FSU gold projects, both syndicated to commercial banks. As just mentioned by Mamadou Barry, in Russia there is the Omolon Gold Mining Company and, in Uzbekistan, there is the Zarafshan-Newmont operation. He has written articles on these issues publicly. He has fifteen years' experience in commercial banking, including four years with EBRD. He is well qualified to talk to us today. I invite Mark Rachovides to speak on behalf of the EBRD.

Mark Rachovides, Associate Banker, European Bank for Reconstruction and Development

Thank you, Keith. I am not sure I deserve such accolades and I will spare you the marketing pitch on the EBRD. For those of you who are not familiar with our organization, the European Bank for Reconstruction and Development was established in 1991 in response to major changes in the political and economic climate that followed the fall of communism. In accordance with its founding agreement, the EBRD then only works in countries committed to the principles of multi-party democracy, pluralism, and market economics. We are based in London, England, and have an international shareholding consisting of sixty members, being fifty-eight countries and two international institutions, the European Community and the European Investment Bank. We operate in accordance with sound banking principles. We are not purely a development finance organization. We promote good business practice, and we are careful to ensure that we are always additional to the private sector, complementing rather than competing with other private sources of finance.

In Russia, the EBRD has undoubtedly acquired a reputation in terms of being the largest single foreign investor among the international financial community. In respect to the mining sector, I am going to confine my comments entirely to precious metals. Our experience in the sector to date is as follows: We have been the largest foreign investor in gold mining in the Former Soviet

Union. Our commitments to date have exceeded US$300 million of which, in Russia, we have invested US$135 million. These figures may sound impressive, but if we compare them to our investments in oil and gas, we have invested over US$1 billion in the same period.

Within Russia, we have participated in a variety of enterprises. Much has been spoken of the Kubaka project today, and I cannot add really to the words of John Ivany and Ilya Rosenblum. Suffice it to say that EBRD, along with OPIC, participated in that project's financing, along with a commercial syndicate. What I would like to say about that project, and to the credit of Kinross Gold and their Russian partners, is that this was the first project in the Former Soviet Union to go to project completion. The first project to be judged credit-worthy on its own merits, and much credit should go to Kinross Gold for that. In respect to our other activities, we participate in the technical cooperation program, run by Western Pinnacle. In respect to gold producing companies in the alluvial sector last year, we evaluated forty-two separate producers for a program that I will come to later in my speech. We have also participated in the Buryatzoloto project, along with High River Gold, providing equity, gold loans, and hedging. We are also embarking upon pre-production financing, as I said, of alluvial gold producers with Russian partners, notably Lanta Bank.

I will give you now a brief overview of our experience. As you all know, Russia has enormous potential in respect to precious metals, particularly in the far east and in Eastern Siberia. There has been enormous international scrutiny since these sectors first opened up in the early 1990s. Russia still remains one of the largest producers of gold in the world, and about 85% of all gold ever produced in Russia has come from alluvial deposits. This is an interesting statistic. This compares to about 10% in the rest of the world. The clear implication is that there are still substantial hardrock sources yet to be mined.

Even though the collapse of the ruble has made mining companies more competitive, the reduction of traditional state financing has had a substantial impact on gold production. I, myself, published an article at the end of last year, estimating Russian gold production for 1999 at 99 tonnes. I was proven wrong so my congratulations to our Russian colleagues, because you produced rather more than that.

In recent years, foreign investors have made substantial direct investments in Russia, however, I would say not substantial enough. The details of those are all well known to you and I will not repeat them now. Historically, the first entrants into the industry have been junior mining companies. They have taken the lead in projects and, despite the interest of many larger companies, few projects have actually gone beyond feasibility. These junior companies are mostly specialists in a particular segment of the industry or, in very rare cases, in Russia. Despite great opportunity, exploration and, later, mining for gold in Russia is still extremely difficult. We are aware that mines are often in remote and inhospitable locations, a fact that I concede is not peculiar to Russia. But delays have also been very problematic for most greenfield projects,

with a high hard currency content. On the other hand, for established or low cost projects, we have seen recently that the ruble devaluation has ironically made Russia a much more attractive place to invest.

Debt finance has been, in my opinion, not successful in Russia. Few gold projects have obtained debt finance, and even fewer now are under negotiation despite the Russian government having held several tenders. In my view, in retrospect, a high equity content may have been more appropriate. Again, I will return to this point later. I will not encroach upon the territory of our friend from Macleod Dixon who will speak afterwards, and I will skip over my comments on legal issues. Suffice it to say that, as Kinross will undoubtedly agree with us, a project financing in Russia takes an enormous amount of legal due diligence and it is an area that I would be happy to discuss with anyone after this. Mamadou rightly pointed to the political, economic, and legislative risks that are perceived in Russia. To date, these risks have certainly contributed to delays in financing. Many companies regard financing in Russia as prohibitively expensive or even impossible. As such, the industry has really relied more and more upon the efforts of a small band of financiers, principally the international financial institutions, and, of course, our Russian friends.

The financing of Russian mining projects has presented additional complications. To dwell a little more on the legal structure, there is a requirement for offshore security arrangements, insurance arrangements, and Russian security arrangements, that are often impenetrable to western financial institutions. We, as an institution, spend a great deal of time trying to make this information accessible, both to mining companies and to other banks. I can tell you it is not easy. Lenders have always required, to date, that loan proceeds and revenues flow through a series of offshore accounts that are pledged as collateral, that are monitored by various agencies and remain a source of primary security. Clearly, for shareholders this can be an issue. I think Kinross can testify to that. In respect to Russian domestic producers, at present, an average Russian gold producer effectively has two options in realizing gold. It can sell to Gokhran or it can sell to the Central Bank. And by saying sell to the Central Bank, it may also do that through the agencies of Russian banks. Now if Gokhran is not in a position to pay, a producer can indeed move on to the commercial market. However, while we have a history of pre-production financing in Russia, that financing, in 1998 and 1999, dwindled. And in response to that, the EBRD embarked upon a plan to use gold loans to pre-finance up to twelve tonnes of production in the year 2000.

The purpose of my mentioning this today is that we feel as an institution that investment in the Russian gold mining industry can be promoted only by increased information and awareness, that flagship projects with western partners are important and have been spoken of at length today. We believe that in order to develop longer term partnerships, a greater understanding and a greater degree of information is essential.

To describe briefly our pre-production financing, we regard it as an innovation. We hope that it will have demonstration effects, and we expect these to be as follows: We think it is the first short-term gold financing to involve both western and Russian banks. We believe it is a first exposure of Russian small- and medium-sized alluvial gold producers to western credit criteria, environmental standards, and due diligence standards. We believe it is the first project that will attract western participation to the sector, but also one of the first transactions (with the exception of the Dukat project) since the 1998 financial crisis to attract both substantial domestic and international commercial bank co-financing.

One of its major objectives is, as I say, to increase trust and confidence among those banks and to establish better working relations between them. That facility goes on. So far we have approved four loans to three alluvial producers. To give you a very brief description of what the facility entails, as I said, it is a pre-production financing facility in gold, it is seasonal in accordance with alluvial producers, it has a maturity of 240 days, and we will finance up to 50% of its expected production. The participants are, on the Russian side, Lanta Bank and Zenit Bank and on the international side, Standard Bank of London. I am happy to discuss that with anyone who wants further details later.

One of the projects that has not really been mentioned today is the Buryatzoloto project. The largest shareholders in that project are the EBRD and High River Gold of Canada. And I believe that Mr. Whalen is here today. High River has taken a different approach to other western companies. It has taken a 23% share in a Russian gold mining company. It has two producing gold mines in the Republic of Buryat. High River seems to have made a deliberate decision to enter the industry through an equity position. They concluded early on that this provided a number of advantages. High River made no financial commitment to exposure beyond its initial investment and acquired experience regarding problems and opportunities of working in Russia at relatively low cost. Buryatzoloto produced approximately 95 000 ounces of gold from hardrock operations in 1998 and approximately 101 000 ounces in 1999. It is an attractive property. It has large, high-grade ore reserves and it is an existing mining operation. It is not a greenfield site. It has significant potential. Regarding the cost of production, it figures very well on a world wide basis. Its management has excellent technical expertise. It has an entirely Russian management, which has a strong commitment to make Buryatzoloto a successful, internationally recognized gold mining company.

The presence of EBRD, as a debt and equity partner, has also provided the equivalent of political risk insurance to the project. Rather than controlling or owning the whole company, High River, I think, can be said to be taking a longer term view; to be building value in Buryatzoloto. I would suggest to some potential investors that this may be an approach that you may choose to follow. Buryatzoloto has been able to raise funds from the EBRD and has an attractive hedging program. It hedged 30 000 ounces in 1997, 60 000 ounces in 1998 and 60 000 ounces, again in 1999, at prices considerably higher than the prevailing world market prices.

Some thoughts as to where the future may lie. Again, I expect Macleod Dixon to speak a little more on the legal environment and I am looking forward to the presentation on the Production Sharing Agreements. But I wonder if a possible exit strategy for a junior mining company is to cooperate with a larger one when the potential of the mine is demonstrated.

The links are clear, I believe. The way forward for investment and development I believe is in partnership. In initial exploration and start-up phases, entrepreneurial junior companies may be able to facilitate and finance this. Properties so developed can become attractive to larger companies which would seem to accord with a current process of consolidation in the industry as a whole. Given the volatility of the current price environment, gold loans may provide the useful and efficient route to working capital for smaller independant producers. Similarly, risk can be mitigated by suitable hedging programs provided by multilateral institutions such as EBRD and can, if properly structured, provide credit enhancement to give comfort to commercial investors or debt providers. In the longer term, broader relationships between both western and Russian debt or equity providers and producers can be facilitated by specialist investment funds that finance the earlier stages of the project and develop a reliable and comprehensive body of knowledge and experience, both for the sector and the changing investment climate in Russia. Ladies and gentlemen, thank you very much.

(Applause)

Keith Brewer, Co-chair of the Seminar

Thank you very much, Mark. In speaking of the EBRD investment record in Russia, one is reminded that investment through supra-national organizations is generally justified in terms of bridging what the private sector itself cannot bring to bear through its own investment decisions. So this is very relevant in terms of our current seminar.

The next speaker will be Mr. Leo Maraboli, representing the Global Mining Group and the International Finance Corporation of the World Bank. Leo is a mining engineer. He has had a long career at the Word Bank. In fact, he was born in Chuquicamata in Chile, so that qualifies him to be working in the mining industry from the day he emerged into this world. He has worked with Anaconda and in terms of working with governments, I personally know about his involvement with the government of Iran and, as of last November, in Saudi Arabia. Again, he is very well qualified, and we are happy to welcome Leo Maraboli to speak on behalf of the World Bank. Leo...

Leo Maraboli, Senior Mining Engineer, World Bank

Ladies and gentlemen, I am very pleased to be here today, to have been invited to provide some considerations about investing in Russian mining. I am speaking here today on behalf of the

World Bank Mining Group and of IFC, because these two units have been merged just recently, at the start of this year. In order to provide some considerations about investing in Russian mining, I will necessarily have to provide some background information, in a capsular manner, about activities that we do in the World Bank. Then I will try to blend this rapidly into what we are doing in Russia today. So, for this purpose, I will briefly address some trends in the mining industry. Second, I will look at mining in a changing world. Third, I will briefly address the global shift of exploration expenditures. Fourth, I will try to identify, or share with you the road map which, for governments, we have elaborated in the Bank. Then I will address World Bank Group activities in mining. I will then emphasize our concern about mitigating risks in mining. And finally, I will come to what all of you want to hear from me, which is World Bank Group support for mining in Russia.

With that, I will go to my first point and it is basically that, as we look at trends in the mining industry, that this is a tough business. And this can be seen on this graph, which shows that, in constant terms, the real average prices of metals have been decreasing over time. In looking at copper alone, we conclude that it has been a tough business for the last hundred and fifty years. For the future, we consider that it is going to continue to be tough. In the long term, we are not optimistic about prices, although we see some relief in the short-term. We realize that money is scarce for risky countries and then of course there is the element of environmental and social use issues which have been increasingly important. Yet, of course, there are some good returns to be made in the right product and that is why all of us are here. Now, another important trend is the realization that mining is important as an emerging market business, and this is exemplified in this graph which shows the significant importance of mining. Another interesting realization, or acknowledgment, is that the flow of public funds is progressively decreasing, while the flow of private funds is progressively increasing. And then, of course, there is the matter of country risk, which plays an increasingly important role.

With those trends in mind, we have to look at what is happening to mining in a changing world. What we see here is, over the last decade, a dominance of markets, shrinking of the government's role as a regulator and administrator, the private sector emerging as the leading force in investment with new responsibilities, the recent increased role of NGOs. Environmental aspects and social aspects have become important. Now that leads us to think of what is going on at this moment. Let me go to the result. The result is that we see that companies are competing, and countries are competing to attract investments. Among the important causes here, we see that there are economic factors, which are globalization, fiscal pressures, cyclical downturn in metal prices. Of course, I have to mention the Asian crisis. Then, of course there are political factors. There is an increasing role of civil society, transparency, environmental sensitivities and, again, community activists.

With these, we have gone to see what is happening on the ground. What we see is a shift in exploration expenditures. And basically, as we look at these two pie charts, we realize that there

is a tremendous increase in Latin America. Africa has had a good share also, at the expense, of course, of the developed countries. This shift leads us to think about what Latin America did right, for instance. And basically what we see is that the shift in exploration showed that governments do play a key role. Country competitiveness is measured in terms of an investment environment with a sound and stable macroeconomic management, legal and regulatory framework, fiscal conditions and administrative institutional capacity, paralleled with infrastructure and availability of services. On the side of sustainability, of course, what comes out is the need for sound and responsive attitudes to the issues that I have already mentioned, which have to do with environment, with social aspects, and codes.

Now, all these considerations have led us to try to identify a road map for governments. That road map has been identified, and we see that it consists of several blocks. One is the definition of clear objectives. The other one has to do with strategy, legal and regulatory reform, institutional reform, enterprise restructuring, privatization, environmental/social protection, stakeholder commitment. On this, of course, there needs to be reflected (as we have seen in many of the successful countries) a new legal framework, new institutional framework, corporatization, privatization, and environmental management and community relations. Now, one characteristic of this is that, under this kind of setup, public money is small compared with private funding. Private funding takes care of exploration and mine development, and the public funding goes to regional aspects, to determination of resources in order to attract investment, and to carry out regional work. Another important element of this is the perception of risk. What we have noticed is that there are project risks that an operator can work with and has a good handle on. Then there are sector risks where the investment environment is crucial. And then there are country risks. And I have heard a little bit during the morning about all of these risks, in different ways from different companies, so I will not elaborate too much on those. Finally, of course we have market risks and commodity prices.

But then there is a little bit of remedy. And here the remedy and the mitigation comes finally through using partners. In this case, I have put IFC because that is whom I am representing, but I am talking about the international agencies, EBRD etc. And then, there are political risks and insurance aspects. Of course, somebody will ask me about hedging. I put it down there.

Now with all this background, what does the World Bank Group do in mining? Basically, we work from two sides. One, on the side of the government tenders. That used to be the role of the World Bank Group... the Mining Group of the World Bank... and that was through the form of sovereign loans, advisory services, partial risk guarantees. From the side of IFC, this was oriented to the private sector through loan syndications, direct loans, equity participation. The emphasis on all of these activities was to mitigate risk in mining and to attract investors. So this leads me back to what I have shown already, but in a different form, which is to establish an investor-friendly economy for the mining sector. And these are activities that the World Bank

was very heavily involved in, and it continues to be very heavily involved. Privatization, of course, of the state owned assets and increased work on community relations.

On the side of the companies, of course, the economic fundamentals. The partners that I just suggested where I had put IFC alone... I apologize... and increased environmental rigour and sensitivity to community. Now, this leads me to the reason I am here. To talk about Russia and specifically, with all the limits that I have already mentioned to you, the strategy for Russia was to have a public focus from the side of the Bank which aimed, as we have all seen over the last years, to restructure coal mining. And this was done through coal sector reform and through technical assistance for coal sector reform. More recently now, I am pleased that there is going to be an operation on coal mining safety, and negotiations with the Russian government for this purpose are scheduled for sometime later this month.

On the other hand, the private sector orientation for work in Russia has been done through IFC, through participation in the Dukat silver mining project, which was mentioned this morning. Intermediate to this, there is no activity started at this moment, and there is a project which is well advanced. I think it is going to be processed before the middle of this year, and is going to be a risk guarantee, which is originally earmarked for coal. However, this risk guarantee is an interesting one because it has a bridge, I think, to minerals. It will help enterprises finance fixed and operational assets related to production, exports and employment. It will be a non-commercial risk guarantee, in which the focus is non-interference with private transactions from the side of the government, resolution of problems from interference... or compensation from interference... and that compensation would be from the budget. It reflects the interest of the government in taking financial responsibility for no discrimination, on a number of elements. The most important have to do with licenses, with inputs-outputs, and with changes in taxes. It supports the privatization of coal mines. It supplements the mine closure... coal mining closure programs, by fostering alternative employment to coal mines and related affected firms. This is important because, as examples I have put there, it could provide a guarantee for a coal trader. It could provide a guarantee for financiers of working capital related to coal... for equipment leases. But the element that I mentioned, of related affected firms, would also enable that such guarantees could be extended to producers of other minerals where, for instance, they are using laid-off coal miners. So this is the first bridge that I am seeing from the Bank Group that starts to be built towards minerals that are not coal.

From the side of IFC, as I mentioned, there has been an operation with Dukat Silver Mine. This operation includes loans, includes equity and standard overrun facilities. I will not repeat myself too much on it because we have heard a presentation on Dukat Silver but—the point that I wanted to make here today is that we realize that the lease has been challenged—, we realize that the two main elements in this challenge appear to be that development did not take place before the fall of 1998, and that investment was under US$150 million. We also realize that the cost estimates of US$150 million were revised during the approval process of a feasibility of US$100

million. We also realize that final project approvals have come as late as February 2000. We also understand that there is an ongoing review of the challenge to the lease being carried by the Ministry of Natural Resources, during the month of March. But this leads us to have to place emphasis on the need for transparency and clear rules of the game because the penalty for the lack of transparency or clear rules of the game results in delays in implementation. And very importantly, in such a large country as Russia with such a beautiful geological endowment, even the least adverse effects impact on the ability to attract private investors.

So, trying to summarize and ending, I started by saying that the Bank's view of mining is that it is a tough business. In Russia, the achievement of success to attract investments for mining will depend, clearly, on the establishment of competitive conditions and stability. Thank you very much.

(Applause)

Keith Brewer, Co-chair of the Seminar

Thank you very much indeed, Leo. The presentation by the World Bank really brings into focus the help from the World Bank to coal restructuring in Russia which, of course, is valued because restructuring and transition to a market economy really has to take account of the impact on people's lives and not just pure, cold-hearted economic efficiency. And the World Bank has recognized that, particularly in the coal program. I would like to say that, talking about economies of scale, the World Bank is in fact getting to deliver three presentations for two, because Mamadou Barry has now to leave to go into the main sessions of the PDAC and deliver a speech there. So we would like to thank him for his participation, and hope that he can come back when he has finished that. In fact, Leo Maraboli will answer questions later on the subject matter that was presented by Mr. Barry. But anyway, he thanks us for the opportunity to come here, and he is quite impressed by what we have done.

In terms of the next speaker, we have the pleasure of inviting Ms. Eva Thiel from the Organization for Economic Cooperation and Development. She has obviously recovered from jet lag, because she did point out that on the agenda we had written that the OECD's presentation will be in the section on 'international financing' and, of course, the OECD is not strictly that. The OECD as an organization has a very direct and important interest in the rules and regulations under which economic activity takes place. It is therefore very relevant that she has consented to come and speak to us on this subject today.

Ms. Thiel has degrees in business studies from Sweden (Lund University), economics (Princeton). She has written widely on Swedish direct investment abroad. She has worked in banking in London (City Corp., Credit Suisse, First Boston, Chase). She in fact started her work on transition economies with the EBRD in London, and joined the OECD six years ago, where

she has worked with financial sector issues in transition countries, bank restructuring, securities market infrastructure as well as accession to the OECD of Korea, Poland, Hungary, the Czech Republic and currently the Slovak Republic. Ms. Thiel is also in charge of a project analysis, the Enabling Environment of Investment in the Russian Federation, which is going to be the subject of her talk this afternoon. So may I introduce to you, Ms. Eva Thiel.

(Applause)

Eva Thiel, Principal Administrator, Relations with Russian Federation, OECD

It is Women's Day and I get endorsed even before I have spoken! Thank you. I was going to say, but you pre-empted me a bit, that I have to disappoint you from the outset on two scores. First, that the OECD does not provide finance or guarantees of any kind to anyone, nor does it have any special expertise on the mining sector. So let me first say, in case somebody does not know, what the OECD does.

It is an intergovernmental organization that serves government officials, at various levels, as a forum for exchange of policy experience in various areas of government, and we work with non-members, not like the EBRD or the IFC or the World Bank, in general, by providing finance or technical assistance as such. We rather try to work with non-members through bringing them into the policy dialogue and making the accumulated expertise of OECD committees of experts available to them, either through direct dialogue or through our publications, analytical studies, or through the arrangement of conferences and seminars on various subjects. Sometimes non-governmental organizations or private sector experts also participate in these conferences.

I will talk today about an ongoing OECD study on the investment climate in the whole of the Russian Federation, not specifically directed toward the mineral extraction sector. Rather, it aims to deal with the problems confronting investors, domestic as well as foreign investors. We all know that, since the financial crisis which came to a head in August 1998, foreign investment in Russia has not regained the momentum that we saw in 1996 and 1997, despite some improvement in the course of 1999. Nor has domestic investment recovered along with the increasing output and production that occurred in 1999. Rather, it is still stagnating. Both direct and portfolio investors continue to be deterred by the shortcomings in the legal and institutional environment for investment and it is the purpose of the OECD study to address these obstacles and provide a framework for a dialogue between government officials, legislators, and the business community.

The shortcomings in the investment environment are, of course, very well known by now, and frequently commented upon, sometimes even taken for granted. I saw, on the plane here, an article in the Financial Times that discussed the particularly good situation facing the fledgling Internet industry in Russia because they have the tremendous advantage of an education system

that produced several specialized institutions where there are hundreds and thousands of highly skilled computer programmers who are available to this industry at very low cost. But, the article goes on to say, almost as a matter of course, there are many barriers to development remaining in Russia for this industry, and they mention what we have already discussed today: the regulatory burden of doing business in Russia, the lack of infrastructure support and the poor distribution system.

So what would be new with this OECD study? What can we hope to add to the discussion that has gone on in other fora or in other publications (the EBRD Transition Report, MacKinsey came out with a study last year.) We have Ernst and Young's FIAC (Foreign Investment Advisory Council) study of obstacles in the investment environment...

We are hoping to cover new ground in two ways. First, as I started by saying, by engaging officials and legislators and the investment community in an ongoing dialogue, trying to identify what are the most immediate problems and how to address them. And we want, at the same time, to look at the overall investment climate for domestic investors, as well as foreign investors, and avoid the approach of trying to piecemeal address specific major investor problems as, sometimes, the FIAC forum has been criticized for doing. The study has the support of ministers and agencies in the Russian Federation. We have worked extensively already with the Ministry of Economy, the Central Bank, the Ministry of Finance, the Federal Commission on the Securities Markets. We have created a steering group with some members of these agencies and ministries, but also private sector representatives, law firms, and individual investors, who give advice, and also market securities firms and operators covering the interests of portfolio investors. We had a first meeting of this group in November and tried to define the scope of the study and identify what can be seen as the most serious obstacles for investors.

They were summarized really under three headings. First, the insufficiently developed property rights and the weak enforcement mechanisms for contractual rights and obligations. We heard quite a lot today already about this. The second item was lags in the reform of public governance at all levels of government and in the judiciary, which allows for widespread corruption, and the inadequacies of the taxation system, which is not always consistently applied and often carries the wrong incentives for enterprise development. In general, it was agreed that the focus of the study should be to develop policies to come to grips with the inconsistent and patchy implementation and enforcement of a legal and regulatory framework for investment that already has been developed to fight adequate standards in many respects.

This steering group is supposed to meet again at the OECD headquarters, at the end of May, to discuss first results. That is if the government officials who participated will still be at their posts after the election, which I cannot be sure of. But, in any case, we plan to have a meeting at the end of May and this will be back-to-back with the OECD Committee on International Investment and Modern National Enterprises. But, as it is going to be an expert meeting, private

sector representatives are also invited to participate, and I would be quite happy to provide details about the meeting if anybody has an interest. The participants intended to be addressed or heard in the policy dialogue at the study will be members of the federal government and Duma members of relevant committees, regional and local governments, and Russian as well as foreign investors, of course.

The study itself will have one section covering the results to date, to take stock of the legal and regulatory framework, the new law on foreign investment, the currency regulations, the customs regulations, etc., of concern to foreign investors. It will also give details of the flows and geographical distribution and sectoral distribution of the investment, types of ventures, whether greenfield, joint ventures, acquisitions, etc. It will track portfolio investment flows and discuss the results in this area. But this will be by way of background only, because the focus is supposed to remain firmly centred on the key policies I mentioned earlier. We intend to try to develop policy recommendations in the area of the rule of law, corruption, economic crime, in the area of investor protection, corporate governance issues, in the regional dimension, investment policies at the sub-federal level, on taxation and taxation issues of concern to foreign investors as well, and on financial sector reform and its impact on the investment environment.

I will not have time to speak about all the areas I just enumerated, but since the rule of law issue is a major concern to most investors in the Russian environment, I thought I should say a little bit about how we intend to approach that, because it is a very difficult area to develop policy recommendations in. Many of the previous studies have concluded, unfortunately, that despite the urgency of the problems there is no immediate remedy because the structural problems can only be resolved over time. There is no quick fix to be suggested. Our steering group is relying extensively on legal advisors to foreign investors, who have long experience in Russia, to provide us with case material and actual concrete situations from which we hope to develop some specific recommendations, say in introducing international arbitration results, getting acceptance in local courts, etc.

But there is also I think... if you look at the history of criminality, the special concept that has developed in Russia because of its past and the long duration of communist rule that, as opposed to other transition economies, eroded any traces of previous market-based institutions and legal rights protection. It helps to understand the situation in the judiciary because if illegality was anything that threatened state authority, law itself became a political tool and the Communist Party could act without any checks and balances. This engendered, of course, a certain disrespect within the party for the judiciary, which led to low priority for the judiciary in the allocation of resources and in facilities, and this survives to this day. If you look at the funding available for the judiciary and the training facilities, etc., it is easy to find an area where one could develop very practical and concrete policy recommendations that might have more immediate effect, such as lengthening the tenure of judicial appointments, providing adequate funding, training,

exposure to international law, etc. So even in this difficult area, there are concrete policy recommendations that can perhaps work even in the short-term.

On corporate governance, many of the points I have just made on the rule of law also apply. The laws are in general already developed. There is, in addition to the standard commercial legislation and the joint stock company law, the securities law, a new investor protection law that came last year. But implementation, again, and enforcement, is the problem. I do not think I should dwell on all the corporate governance problems that we have seen and could discuss in concrete terms. The influence by government at local levels on company management is well known. The disrespect for smaller shareholder rights, the lack of regard for pre-emptive rights and share issues, timely notification, etc., has been widely discussed. Here again, we intend to use practical cases to try to formulate concrete policy recommendations for improvement.

The enforcement issue is, if it is not resolved by the courts and not resolved by the market since market discipline has not yet developed, of course something that everybody now focuses on as a major problem for direct and portfolio investment in Russia. We also intend to cover financial sector development. I mentioned that earlier on, we have many practical policy recommendations that can be developed in this area. How to provide more finance for small- and medium-size businesses? We heard earlier today that the use of suppliers for the major mining companies, for instance, has been held back by lack of finance and necessitating large advance payments. And there is much of a practical nature that builds on experience in other countries that can be brought into the discussion here. I think I will have to finish though, as you probably realize, this is a very large project with many issues to cover. I would be happy to answer questions if there are any on any particular aspects. Thank you.

(Applause)

Keith Brewer, Co-chair of the Seminar

Thank you, Ms. Thiel. What I am inclined to do is press on with the schedule. And we have time after the formal presentations for discussion. I would propose that we take that time to have questions.

I have an announcement here. This is from Steve Nichols, who is outside the door, on behalf of the Canada-Russia Business Forum. The list of attendees is available at the registration desk at break time, which will be after the next presentation by Mr. Anatoly Andriash. Detailed contact information will be e-mailed to those on the list or is available upon request from Natural Resources Canada, by fax or by e-mail. Question: Are the presentations of the IFI presentors and the private sector companies available in hard copy and/or electronic format for posting on the CRBF web site? I believe that they are not available at the moment but we will endeavour to

make them so. In fact, make sure you register. Make sure you leave us your name, and you will be able to get some feedback.

All right, now we will continue. Let me just thank Eva Thiel. Having had the views of the multilateral organizations, it is evident there are commonalties in the programs that they have and the bilateral Canada-Russia IEC that we have had up to this stage. In fact, that was the reason why we invited them to be present at this seminar.

Let us carry on with the program. The next speaker is Mr. Anatoly Andriash who is an associate with Macleod Dixon in Moscow. Macleod Dixon is a law firm that is well known to you. Anatoly, thank you...

Current Legislative Status from Western Legal Firm Viewpoint

Anatoly Andriash, Associate, Macleod Dixon - Moscow

Thank you very much, Mr. Chairman. And as it was mentioned, I am representing Macleod Dixon's Moscow office. Macleod Dixon has been working in Russia for at least ten years, and our company provides a comprehensive range of legal services related to the mining sector.

Ladies and gentlemen, I will speak about the changes in Russian law which were introduced for the period of 1999-2000 and which might affect foreign investment in the mining sector of Russia. First, I will speak about changes to the sub-soil legislation and then I will speak about the new foreign investment law. I will certainly speak about the issues of concern which should be taken into account by a foreign mining company which is operating in Russia. To begin with, in January of this year, Russia's primary existing sub-soil legislation was amended. The most significant changes are, as you can see them on this transparency, a new basis for issuing and transferring mineral licenses and the conversion of an exploration license to a production license without tender or auction. I think this information was mentioned several times today. I will also talk about changes to terms of mineral licenses and dispute settlement procedures.

I will start with transfer of mineral licenses. In my opinion, transfer of mineral licenses under the new sub-soil amendments is a most important change. Mineral licenses may now be transferred in the process of establishing a joint venture. This is similar to the basis provided by the very famous ministerial instruction, Order 65. Under this instruction, 80 percent of all production mining licenses were issued, but eventually Order 65 was abolished because it contradicted federal sub-soil law. And now there is serious doubt about the validity of mineral licenses which were transferred on the basis of Instruction 65. Some of those licenses have been contested in the courts, and you may have heard about the Black Sea case. Under this case, the court declared

invalid the re-issuance of the mineral license to a Russian company, Black Sea Energy Petroleum, on the grounds that Order 65 was not in compliance with the federal sub-soil law. And, as a result, all those mineral licenses which were transferred under Order 65 now depend on the legality of this procedure. And the worst is that a license transfer conducted under Order 65 can still be found invalid and likely reversed. In this regard, I think that new legislation should be passed which would reconfirm the legal status of mineral licenses issued under Order 65, and this new legislation may give a sort of protection of rights to foreign investors working in the mining sector from possible challenge of their mineral licenses.

Another important change which is introduced by new sub-soil amendments relates to the conversion of an exploration license to a production license. According to new sub-soil amendments, a sub-soil user carrying out at its own risk and expense exploration work which results in the discovery of a deposit is given a production license without holding tender or auction. I think that this would encourage exploration work by subsoil users.

Another change relates to the duration of a mineral license. Under the new amendments, the duration of a production mineral license is the production life of the deposit. The previous sub-soil law provided for a term of twenty years for a production license.

The last significant change which was introduced by new sub-soil amendments relates to dispute settlement procedures. Now, under sub-soil amendments, it is possible to submit any property claims, relating to sub-soil use, through an international arbitration tribunal. However, based on my experience and observations in Russia, I am aware that some international arbitration awards, which should be implemented by Russian courts on the basis of the local legislature, have not been actually enforced. Courts may refuse even to consider a claim for enforcement even if an enforcement order has been issued by the court. Authorities are responsible for enforcing such an order. They may fail to enforce this order. Several examples illustrate this risk. These examples do not relate to the mining sector, but I think they might be interesting. These examples include the inability of the foreign party in the Aerostar Hotel joint venture in Moscow to have an arbitration award enforced by a Russian court against the Russian partner. And these examples also include an inability of the foreign party to force a joint-venture partner in St. Petersburg to do the same. I think that you may see that there is an obvious discrepancy between theory and practical implementation of law.

The next issue is the retroactive force of new sub-soil amendments. New sub-soil amendments do not expressly state whether they apply to mineral licenses issued before they came into force, but the most likely interpretation is that mineral licenses issued before those amendments are not affected by them.

The second topic of my presentation relates to new Russian legislation on foreign investments. In July 1999, a new Foreign Investment Law came into force in Russia. For the first time, this

Foreign Investment Law introduced a so-called grandfather clause, which would provide a somewhat stable tax regime for priority investment projects chosen by the Russian government with significant foreign investment provided, however, that certain tax and customs laws are amended accordingly. I may report that, for the time being, tax and customs laws have not yet been passed. In addition, the new Foreign Investment Law simplifies the procedure for setting up Russian legal entities with foreign investments, and establishes a new procedure for the creation of branches of foreign legal entities in Russia. The new Foreign Investment Law does not affect other legal issues relating to projects with foreign investments.

Speaking about grandfather clauses, it is worth mentioning the following. If a new federal legislation is enacted, which adversely changes the rates of import custom duty, federal taxes and other obligatory payments and, if this legislation increases the cumulative tax burden for foreign investors, then investors are protected from such changes. However, the application of a grandfather clause is limited by the project payback period, which may not exceed seven years, although this period may be extended for priority investment projects with the approval of the Russian government.

It is worth noting that the new foreign investment legislation suggests that grandfather clauses apply in particular to the profit tax, withholding tax, export duties, subsoil payments and royalties. Expressly excluded from the application of grandfather clause are excise taxes, VAT on goods produced in Russia, payments to pension funds and presumably regional and local taxes. Further, the Foreign Investment Law offers no protection from any changes in Russian legislation with respect to the constitutional system, health, public morals, and with respect to security and defense of Russia. I should say that those categories can be interpreted very broadly.

The next drawback of the Foreign Investment Law is the fact that many issues related to grandfather clauses remain at the discretion of the Russian government. A most important example is that the Russian government has sole discretion in determining the criteria for what changes to Russian legislation are deemed favourable for foreign investors. Please be advised that the above-mentioned grandfather clause applies only to priority investment projects. A priority investment project is one which involves either a total investment of 1 billion rubles or foreign investor's interest in or contribution to the charter capital of the company with foreign investment of at least 100 million rubles.

Generally speaking, the new Foreign Investment Law is very ambiguous because of last minute changes. Among these last minute changes is the grandfather clause. But from the foreign investment climate point of view, I think it is a step forward. Then, it is possible that grandfather clauses will also apply, not only to major investors but also to operators, contractors, suppliers as is the case with the Production-Sharing Law. To become effective, the grandfather provisions may still require amendments in tax and customs legislation. For example, provisions relating to grandfather clauses directly contradict the first part of the tax code, which stipulates that no

differentiated rates of taxation may be established. It is worth noting that it may require a substantial amount of time in order to amend the tax legislation. For example, it required at least three years to pass changes to the tax legislation in light of the Production-Sharing Law.

I was very happy to make a speech today, and if you have any questions I would be glad to answer them. Thank you.

(Applause)

Question from Mr. Vitaly S. Timokhov, Aird and Berlis

Anatoly, just one question please. Five seconds of your time. It is a legal due diligence question regarding Order 65. If I do my legal due diligence, and I encounter a license issued under Order 65, what should I do? Basically, is it valid? Is it just a big problem for me? Is it valid or should I insist that a license holder should apply under the new sub-soil law to have its license issued again? I just should probably give you a bit of background. Last year, when new amendments were discussed by the Russian Ministry of Natural Resources, they actually said that Order 65 licenses would be rolled into Section 17 licenses, absolutely, automatically, upon application. And I just wonder if they will live up to that promise?

Answer from Anatoly Andriash

Thank you very much for a very legal question. I think it is a pure question for a dispute between lawyers. But answering your question briefly, I would say it is a problem. It is still a problem. Order 65 is still a problem, but there are certain legal ways to mitigate the risk associated with possible invalidation of the transfer, and one of them is just to go through a reorganization of the company and transfer the mineral license to a joint venture or to any other company.

Keith Brewer, Co-chair of the Seminar

I think questions like this can be pursued in detail further. But we will take a break now, and please come back in fifteen minutes, at 3:25 p.m. But I would just exhort you on a couple of things. Please feel free, speakers, to provide me with copies of your speech at any time now, so that there is no a rush at the end. We will guarantee that this conference's proceedings will be published and we will get that to people who identify themselves by their coordinates of name and address. As you have your coffee break, start to think that we are going to have very important speakers in the next session, but after that, we have time set aside for discussion. Discussion should include both the content of this seminar, and whether or not you would like to see another seminar of this type, or how you would like to proceed in the future in regard to matters we are discussing today. Thank you.

(Health Break)

Current Situation and Legislative Agenda for the Mining Sector in Russia

Keith Brewer, Co-chair of the Seminar

Let us continue. We have three more presentations, first of all from Mr. Strugov, and then from Mr. Kolmogorov, and then from Mr. Nikitin. We will start with Mr. Strugov and, after those three presentations, we will take the remainder of the time for general discussion. I think that would be more fruitful than what was assigned to me here, namely for me to sum up. I would hesitate to try to do that, but prepare yourself after these formal presentations for discussion, and basically let us see where we can try and take the issues that have been presented to us today.

Mr. Alexander Strugov is with the Nedra Centre/Production Sharing Agreements Section of the Russian Ministry of Natural Resources. He is a geologist, but he has a Ph.D. in economics, ten years in the legal department, Chief of the Ministry of Natural Resources. He has participated in the writing up of the Law on the Sub-Soil and the Production Sharing Agreements and he really is one of Russia's most qualified people to talk about PSAs and the Sub-Soil Law. So I am very happy that he has agreed to speak, and I would like to introduce him now, Mr. Strugov...

(Applause)

Alexander Strugov, Director, Nedra Centre / Production Sharing Agreements Section, Russian Ministry of Natural Resources

Ladies and gentlemen, allow me to express my appreciation to the organizers of this seminar for the opportunity to speak to such a distinguished audience. It is indeed a pleasure that my presentation, and the presentations of my colleagues, have been left for dessert at this seminar. I would like to address the issues of the development of Russian legislation which, although it is quite young, has incorporated in it the most significant and the most relevant parts of the western legislation, because indeed when we were working on the legislation on sub-soil, we studied very carefully and diligently the legislation in other countries, and in particular Canada. If you take a careful look at the principle and the concept of this law, it coincides in quite a few areas with the Canadian legislation and those of other economically developed countries.

In the Russian legislation, we have two parallel directions. The Constitution of the Russian Federation allows the building of a relationship between the users of sub-soil, the investors who develop projects and extract various mineral resources, and the State, based on both administrative public law and civil law. As far as administrative law is concerned, that is the

traditional law in the domain of which we have the law on sub-soil, the law on precious metals and precious stones, and other regulations. There is a permissive approach to the issuance of licenses that the government issues to investors on certain terms. Lately, the law on sub-soil has incorporated very significant changes, and these changes have been introduced not sporadically, but rather on the basis of a very careful study of the experience of Russian and western companies. Based on this, quite a few changes were introduced that were signed into effect by the President of the Russian Federation, the acting President, in January. We believe that he will become the President... the *bona fide* President... the fully fledged President.

These changes have not been reflected yet in the materials that were distributed amongst the participants of the seminar, but were addressed by the Minister of Natural Resources, Minister Yatskevich, in his speech. The organizers of this seminar are going to be given by us a few copies of the latest drafts of the Sub-Soil Law and the Production Sharing Law, which we translated into English. The translation has been scrutinized with legal due diligence, and can be considered to be an identical and authentic text that can be relied upon when preparing official documents. One copy I am hereby handing over, and we have more such copies. So if you have a desire to study carefully this part of Russian legislation, this is something you could do through the Chairman of our seminar.

While we were working on improving our Sub-Soil Law, we were also quite intensively working in another direction, which is focused on the relationship between the State and the users, based on the civil law. The basis of this is the Civil Code of the Russian Federation. It is also quite a young, so to speak, law. It was adopted in 1995 as well as the federal law on Production Sharing Agreements (PSAs). This law allows the building of a relationship between the investors and the State, on the basis of a civil legal agreement. The relationship here is somewhat different. We do not have any administrative pressure on either side and the participants are indeed equal partners when they sign such agreements.

On the Russian part, the PSA is represented by the government of the Russian Federation and the legislative authorities, for example, the governors of the local territories in those jurisdictions where the agreement is being concluded. On the other side, the other partners may be the western partners and groups of legal entities, corporations, individuals, consortia. And based on that, we have been trying to encourage the negotiation of agreements.

Until recently, the monopoly with this law had been vested with the oil companies. As you know, oil companies have great respect for this law, at least in Russia. We attempt to build all relations between oil companies and the State on the basis of such PSAs, especially in regard to larger projects where one needs significant amounts of capital investment.

What is so attractive in a PSA and this federal law on PSAs? First, the PSA is within the civil law and the government of the Russian Federation is party to it and its guarantor. Second,

concluding the agreement is a guarantee of stability in economic and legal relations. If, within the duration of the agreement, other legislative legal acts arise which worsen the commercial results of the investors' activities, then, based on the terms of the PSA, the Russian government is obligated to pay a certain compensation to these companies. Third, taxation becomes easier for the investor when production is shared. Only two taxes remain. Those are the tax for the extraction, known as "royalty" according to the Russian legislation, and the profit tax. All other taxes are replaced by the PSA. This pre-determined arrangement attracts a lot of attention and interest to this law when one builds relations based on the use of the sub-soil.

The fact that the mineral raw materials, according to the agreement, belong to the investor and that the investor can extract mineral ore without any hindrance from the Russian Federation is playing quite a stimulating role for the development of various deposits.

Production sharing between the state and the investor is quite well known and, in principle, has been standardized. An important element of this scheme is that the investor, which has concluded an agreement and extracts mineral resources is obliged, according to this law, to fulfill the production sharing with the State only after he recovers his investment into the development of this deposit. In fact, this gives an opportunity for an investor to pay back his lenders and, in more comfortable conditions, continue to pursue production sharing between the state and the investor per se.

If we were to speak from the perspective of the government as to the reason why the Russian Federation, as represented by the government and the Duma, supports this law, it is because the State derives a lot of benefit from this approach to developing deposits. First, this is a mechanism to attract investment and high tech, progressive technologies, shared elsewhere in the world and particularly in Canada, to the Russian Federation. Second, there is the creation of new employment, which is especially important in areas where mineral production is the main source of employment of the local population, and where production rates are falling. Third, the State gets an opportunity to receive some very sought after mineral commodities, using the resources of investors who in turn get the mineral resources that they are interested in.

As far as ways to get involved in the process of signing a PSA, there are quite a few alternative ways to conduct negotiations. They are all a little bit different, depending on whether the deposit is being mined, whether there is a license that has been issued for it, and you can see in the left part of this diagram that when a deposit does not belong to anyone, when it has not been allocated, it is in a sort of unlicensed deposits fund of the sub-soil. For such deposits, a tender is announced, a bidding contest, and the winner can sign, negotiate and enter into a PSA. Now let me return to the beginning of this table. In order to enter into a PSA, it is necessary that this deposit be included in the list that is determined by the law, which is approved by the State Duma. At present, the State Duma has included in the PSAs list of sub-soil plots about thirty

sites and about the same number are under consideration. So this process has gained quite a momentum and perhaps, in the foreseeable future, it is going to continue in that direction.

If a deposit is already on the list, has a local owner of a license and a foreign investor involved, there are three different alternatives. The first one is to create a joint venture with the owner of the license on terms well known to you: 50-50. Then the new company (joint-venture) re-registers the license and enters the negotiating process and signs a PSA. There is also another way. It is possible to enter into a PSA with a group of legal entities with the owner of the license being part of that group, that is to set up a corporation that includes and envelops the owner of the license. This corporation, in turn, can be a party to negotiations for the conclusion of a PSA. Finally, if the license was issued after January 11, 1996, there are two ways to proceed. The first one is, if the investor does not want the license, there is an auction or a bidding contest and everything goes as usual. If, however, the investor wants to maintain the license, then he should conclude an agreement with this new legal entity before the deposit is submitted to the Duma. Then this deposit can be given or transferred by the government to this new legal entity. This mechanism is well known and oil companies make quite a use of it. If one were to look into it in more detail, it can easily be applied to one's particular project.

The PSA is going to gain in popularity and I would like to show you this map of sites designated for PSAs. In red, we have highlighted those deposits and the sites where PSAs have been concluded. I would like to draw your attention to Sakhalin One and Sakhalin Two. This is something that has been mentioned before. And in the north, that is the Urengoy gas field, and in the central part, the Samotlor oil field. We can see that there are four PSAs, in effect.

In blue, we can see sites which are part of the Duma list and where there are intensive negotiations underway. These oil fields are in the Khanty-Mansiysk territory and in Central Tyumen. In the western part, there is the Yakovlyev iron ore deposit. There is the gigantic, huge Kuranach gold deposit which was the subject of negotiations. At present, they have been suspended but, we are hopeful that in the foreseeable future they would be resumed.

In green, finally, we have quite a number of sites in regard to which the Duma will make a decision whether or not to include them in the list in the very near future, because they have either gone through the first reading or the second reading. These are almost ready. In gold, we should look at the Mayskoye deposit in Chukotka, the Natalkinskoye (Magadan) deposit and the Nezdanenskoye (Yakutia) deposit. There are also titanium, magnesium and tin deposits. There are sites in the Leningrad Province as well.

What I am driving at is that, geographically, quite a number of regions of Russia are part of the negotiating process, and there is quite a wide spectrum of minerals that are involved in the PSA process. I think that this map quite vividly demonstrates how widely the process of drafting and preparing PSAs is used in Russia, the benefits of this law, and its attractiveness. I think that it

should become a focus of attention for the representatives of various companies present here. Yesterday and the day before yesterday, we had meetings with a number of companies where we discussed in detail this law and its implementation, and we feel that Canadian companies were quite interested in listening to us. We hope and are looking forward to some proposals from them in this respect, especially since the process of preparing new PSA sites has to be initiated by the private sector. Before we go to the Duma with a request to adopt a law with new sites, we need to know in advance that a specific site is the subject of interest of potential investors and that the site is not going to be hanging out there. Unfortunately, we have the example of the Yakovlyev iron deposit, which has reserves of 1.5 billion tonnes of high grade iron ore. The law has been adopted but so far there has not been much interest from potential investors. We are working on that.

So this is in brief what I wanted to say, using the time allocated to me. Perhaps there is one issue that has not been part of my presentation, but is very closely related to it. Before my presentation, there was a speaker from Macleod Dixon, who made a certain declaration, a statement which was not quite correct. He stated that the licenses that were issued in the Russian Federation in accordance with Order 65 are in doubt and that it can create difficulties. I mean this is why the question was originally asked about that Order Number 65. I do not think this is quite true.

In fact, I will go as far as to say that it is quite untrue, because as far as Order Number 65 is concerned, we issued perhaps more than one hundred licenses based on it, and these licenses were issued to joint ventures and in accordance with Russian Federation Law. The Order, which was registered by the Ministry of Justice, is enforceable as an Act of law. And until such time when this Order is rescinded by the Ministry of Justice, it has every right to be observed, and to expect to be observed, and no one has the right to violate or breach it in any way.

After the Ministry of Justice rescinded this Order, we did not issue any licenses based on Order 65 and continued this work only after the new procedure was confirmed by the sub-soil law. It is now a part of the sub-soil law, in the text that we have submitted to you. And I do not think that companies should have any doubts about this. In fact, if anyone has any difficulties or challenges in regard to licenses received based on the Order Number 65, our Centre will undertake to defend, at no charge, their interests in this respect. We are fully prepared to provide clarifications to all those parties, and alleviate any fears or doubts or concerns with respect to this matter.

(Applause)

Keith Brewer, Co-chair of the Seminar

After the formal presentations, maybe we could formulate questions in a different way, take some time to do that, and then we will get some answers. I think we are getting into a very productive exchange here.

Mr. Strugov, thank you for that presentation. I must say that what struck me, as you were speaking, was that the benefits of organizing a seminar and asking experts to bring forward new information is really made obvious by a presentation such as yours. Really, the basis of a soundly functioning economic system is, of course, the development of well thought out and logical laws. Mr. Strugov presented a clearly thought out PSA approach, and I really think that potential investors will put a lot of effort into studying it and understanding it. We thank you, Mr. Strugov, for that very statesmanlike presentation. I would like to thank you as well for that offer in regard to the question raised by our colleague for clarification. And I think that is just one of the benefits of making personal contact here, to have an exchange that does result in misperceptions being cleared up.

Having said that, let us proceed to the next speaker whom I have the pleasure of introducing: Mr. Nikolay Kolmogorov. Mr. Kolmogorov and I have known each other now for a couple of years. He is on the bilateral Canada-Russia Mining Working Group, under the Intergovernmental Economic Commission. He and I are the co-chairs of this Mining Working Group, and he is representing the Russian side, of course. Mr. Kolmogorov is the Chief of the Precious Metals and Stones sector in the Russian Ministry of the Economy. He is a metallurgist and he has had experience with the company Yuzhuralzoloto. With that, may I ask Mr. Kolmogorov to come and share with us his perceptions and thoughts at this point in the conference. Thank you.

Nikolay Kolmogorov, Head, Precious Metals and Stones, Russian Ministry of Economy

Dear chairman, ladies and gentleman. I was supposed to make a presentation about the Russian gold mining industry to our colleagues from Canada, but I thought that there were many presentations before me. That is why I will not make a complete presentation and I will just touch on some topics.

The gold mining industry of the Russian Federation, as the Russian economy in general, is in a state of stagnation. Independent of the fact that, last year, Russia extracted ten tonnes of gold more than the previous year, we judge that our industry is in a state of stagnation. One of the main reasons for that is we are not meeting the targets of the Federal Program for Precious Metals Production up to the year 2000. This program was adopted by the Russian government in the 1990s. I think that, in the Russian economy, there was an imbalance in the past two or three decades, an imbalance between production and exploration. In production, there was a program of extensive use of placer deposits, with 20% of production coming from hard rock mines. A

federal program was adopted in 1996 to create a structure which permits the country to have more stable gold production. It was supposed to build 23 new mills, to adopt new technologies, to use new equipment and to rebuild and modernize older plants. So, this program was supposed to increase the production of gold by up to 45% by the year 2000. In was supposed to result in investments of US$6 billion and in US$.3 billion for modernization. Foreign investment was supposed to be up to US$2 billion. The total was comprised of foreign investment, federal budget investment and loans by Russian credit organizations. They were the main sources of investment for this program.

I would like to explain these sources in more detail. In the four years of this program, new production was only 17% of the target. Investments from the budget were there, but foreign investments from international and foreign organizations were not there. Our hopes to attract foreign investors were overly optimistic. The unstable Russian social and economic situation, the lack in the legislation structures, all these factors made the Russian market an unattractive alternative for foreign investors. During the first years of the program (and it was noted before), we could finance many projects, including Buryatzoloto and others. But, in 1999, foreign investors did not participate in the development of this sector. We do not forget the argument that, in the opinion of foreign investors, today Russia is not an attractive market for investment. We are aware that, in the next three to five years, there will not be a big tide of new investment in the Russian economy.

As I noted before, the government of the Russian Federation, and the presidency of the country, allotted their funds. But these funds were not used as they were supposed to be. The effective investments were only in the Olimpiada deposit and the Buryatzoloto operations. There were also credit sources from the federal budget to the regions. More than US$120 million was allocated to guarantee the collaterals. But this mechanism did not work. Our hopes to attract investment from the Russian credit organizations did not work as well. All the changes that happened on the Russian market made it impossible.

The next factor, which characterizes the decline of the gold mining industry in Russia, and everybody noted that problem, is the lack of a legislative basis, and we have been discussing that all day today. In fact, the Federal Precious Metals and Precious Stones Law, adopted in 1998, does not work. I have to say that today. It cannot work without a series of Presidential decrees which were not adopted. There are no specific decisions by the government of the Russian Federation to support this law, and that is a negative factor in the development of our industry. And this factor not only affects our bilateral cooperation but also affects the Russian users of the sub-soil and other participants in this sector. The reason is that, in Russia, gold is considered a source for hard currency and some draft decrees prepared for the government were returned repeatedly to their authors for further improvement and there is no secondary market for precious metals. Until the creation of this market, everybody will suffer. Last year, practically all our enterprises could not export gold. We thought that we would have a green light for selling to the

international markets, but it did not happen. I am telling you, as colleagues, that we want to create an open precious metals market, but there is a long road from where we are today to that moment.

That is why I say that Ms. Eva Thiel described the picture very well, and the situation, with efforts by Russian agencies and ministries to create new, favourable conditions for foreign investment. Indeed, there was a meeting in the government of the Russian Federation to discuss all these issues, and foreign investors presented many complaints, and the Ministry of Finance promised to take into account these complaints, and to introduce some amendments to the legislation. It was decided that the Russian Customs Code has to be amended. One of the deputy ministers, Mr. Korsov, promised to prepare new documents. But you know, in ten years you cannot build real capitalism. So it will take some years while we continue to suffer from gaps in our legislation. Taking into account everything that I mentioned before, I can say that we will not attempt the development of a gold mining industry in Russia the way that we saw it in the past. We are aware that every year production will grow, but only as a result of building new projects such as Lunnoye, Julietta and others where major investments were made before by the State and these investments will work to our advantage.

My next point is that, in 1999, we were witnessing new developments in the gold mining industry. Production costs were high and our producers started to adopt more efficient technologies. These technologies had been previously introduced in the West, but did not find their way to Russia because, as you saw on the map, we are too far north. The new technologies were used in eight projects and it allowed us to lessen the costs of production and introduce a new generation of mill equipment. It obliged us to re-evaluate our approach and we realized that we have to take a fresh look at the deposits that we considered to be depleted. The technological improvements of the last 10 years allow us to extract more gold from existing mines. We discovered that we have substantial recoverable gold grades in tailings. That is why the enterprises decided to introduce new technologies to extract all this gold.

As the saying goes, "if Mohammed does not go to the mountain, the mountain will go to Mohammed." We were waiting for foreign investors, we were waiting for local investors, but they did not show up. But last year some banks declared their commitment to change their approach to gold production. In the previous years, they only provided loans to gold producing enterprises, but, during recent years, two banks, Lanta Bank and Gasprombank, declared that they were going from a loans only policy to a direct investment policy. So Lanta Bank invested in a gold project which is already in production, and they specified how many million dollars they will invest in this project. Gasprombank has similar intentions. At the same time, big companies such as Polymetall, Alrosa, and some oil companies began to reinvest their profits in the gold mining industry. That is why I can confirm that the gold mining industry is alive in Russia.

We invite you, we extend the same invitation I made two years ago. We are ready to help you, we are ready to work with you, to cooperate with you. If there are some decisions to be made by government, we are ready for that. We have a great foundation in Russia, and you can apply your efforts in Russia with good will, with a sense of partnership relations. Russia has been producing gold for 250 years. We have our traditions, our technology. So that is why we have to make our relationship on an equal, partnership basis. We invite you, we are waiting for you, and we consider that all the efforts from both partners will be profitable to Canadian companies and to Russian ones. On this note, I want to thank the organizers for this opportunity to address you.

(Applause)

Keith Brewer, Co-chair of the Seminar

Thank you, Mr. Kolmogorov. You have demonstrated again your keen knowledge of developments in the mining industry in Russia. Accessing such information is really in the interest of potential investors. So at the very least, I would invite you to keep your telephone and e-mail in good working order, to receive calls from the participants here today in response to your invitation for partnership and cooperation.

I will now introduce our last formal speaker. He is Mr. Valentin Petrovitch Nikitin, who was the former first deputy chairman of Roskomdragmet. Mr. Nikitin signed with my colleague, Alek Ignatow of the Department of Natural Resources in Ottawa, the first protocol between the two countries. That was done four years ago at the PDAC convention here in 1996. That cooperation resulted, later in 1996, in the gold seminar in Moscow, which went very well. Currently Mr. Nikitin is with Gasprombank. He is Director of the Precious Metals and Precious Stones Department, and it is with a great deal of pleasure that I invite him to come and speak to us now. Mr. Nikitin...

Valentin Nikitin, Chief, Precious Metals and Precious Stones Department, Gasprombank

If I may, I am the last shot in this Kalashnikov machine gun that we are all presenting, if we are to be considered a formidable force like this. Ladies and gentlemen, I am very grateful for this opportunity to speak at such a highly represented forum. I represent Gasprombank. Together with Lanta Bank, we are the two banks from our country here at this forum. My bank is a commercial bank in the gas industry. It has been a player in the Russian market for about a decade, and this is the main bank in the gas industry, and I can be so bold as to say that it is one of the most reliable and stable banks in Russia, which has gained momentum even in such an unstable period of development in the Russian economy as late 1998. The results of its 1999 operations put Gasprombank amongst the first three banks in Russia.

As far as the mining sector is concerned, the bank was not involved in this sector until 1999. At the end of summer, last year, the bank board, together with the management of parent company Gasprom, took a decision to get the bank involved in precious metals and precious stones projects development. I would like to stress the precious stones aspect. That is why I am heading this department of Precious Stones and Precious Metals.

Briefly, since October of last year, the bank promptly received all necessary licenses and permits needed to operate in the precious metals market, beginning with the so-called gold license, and through a general agreement with the Central Bank of Russia and other State Authorities, the bank has secured all permits and is about to receive the export license which would allow the bank to conduct precious metals exports, starting with gold and silver. Over the past five years, the bank has completed a few gold purchase and sale transactions on the inter-bank exchange. We finance a few gold producers in Russia. So, the bank's various departments have gained valuable experience in the main aspects of this.

I am a precious metals metallurgist by training and, of course, one of the aspects of the bank has to do with secondary production of precious metals in Russia. At present, we are close to signing an agreement with a certain secondary metallurgy enterprise which has produced about 600 kilograms of platinum and palladium last year. I think that, this year, we will finance the production of about 800 kilograms of these metals. We also must conclude an agreement to purchase about 50 tonnes of silver and, as a bank serving Gasprom gas condensate producers who use palladium catalyzers, we have to address the palladium supply issue.

The bank has accepted this challenge and has made it one of its action items for the future. Perhaps we will have a separate entity under the bank to set up a unified technological chain that will go from collecting used catalyzers to extracting metal by refineries to manufacturing of catalyzers and then to selling catalyzers to the users from whom used ones were first collected.

All this is to be done within the current year, but I have to be quite frank that the bank has entered this year with quite a delay. It is March and the bank is using its best efforts to be ready and hit the ground running in the next year, and that is why we intend to use the entire might of Gasprom, which allows us to use all the lending mechanisms and instruments that are available to us, plus the gas products of Gasprom, including various lubricants which are in high demand with our users of the sub-soil. The gas products supply arrangements, in combination with various other instruments, would allow Gasprombank to secure certain terms which would allow, in the long-run, to lower the interest rate on loans to users of the sub-soil and would allow the bank in the long-run to take the place it deserves in the gold production financing market.

All this has to do with current operations, but, at the same time, I would like to address some of the problems that Gasprombank is interested in, and which are in the forefront of the activities of our department. The bank has, in its portfolio, several quite interesting projects of reconstruction

of gold enterprises and that would allow us, using our own long-term resources for the next two or three years, to enter the market so that these enterprises could increase their efficiencies and also increase their rate of production. Besides, the bank is looking into the possibility of entering into the development of new gold deposits, as well as base metals. And without any doubt, as an alternative, we are considering the possibility of having the bank becoming listed on the Toronto Stock Exchange.

In the day and a half that I have been here in Toronto, I have had a few meetings, in particular with one leading Canadian exploration company, with Mr. Steve Vaughn of the Aird and Berlis legal firm, and meetings with one of the leading investment banks in Canada. We talked about cooperation in the development of one or two projects. We still have quite a job cut out for us, but it is quite obvious that we are going to be using the mechanism that will get the owners of these projects to be listed on the Toronto Stock Exchange. I hope that this will be my main business when I return to Toronto. We still have to complete our own due diligence on these two projects which are very much in the pipeline. At the same time, we are actively negotiating with a number of western banks to attract investment with Gasprombank guarantees, and to channel some of these investments into gold production in Russia. I hope that the implementation of all these projects and plans that I have talked about would allow Gasprombank to earn a certain standing in Russian gold production and would allow us, yet again, to work with base-metals properties which we have available to us in Russia. I hope that our bank will be very much involved in that.

And now, I would like to use this opportunity to touch upon some of the presentations that we have heard before mine at this seminar. And I would like to share my opinion with Mr. Keith Brewer, chairman of today's seminar. Out of the many statements that were made today, I will try to cite to you a few of them that confirm that there are many joint investment opportunities in Russia.

Mr. John Ivany, of Kinross Gold, based on the basically positive experience in Kubaka, said that in Russia, working under Russian conditions, it is possible to overcome bureaucratic hurdles and it is possible to obtain licenses without any... you know... extortions or bribes as he mentioned. He talked about the absence of mafia involvement in the gold mining sector. So perhaps some of the conditions under which he works are even better than in North America.

Mr. Beaty of Pan American Silver, despite all the difficulties that that company is experiencing today, still admitted that the company would like to continue working in Russia.

And Minister Yatskevich, of Natural Resources, said quite clearly that, over the past four years, since the first seminar that was held in Moscow, we practically have managed to tackle those challenges that were facing us back then.

So, trying to summarize what our colleagues have said, the legislative work is going on and this gives us hope that we can improve the investment climate in Russia. I am trying to choose my words very carefully. But, nevertheless, we should see such improvement of the investment climate in Russia, especially because we have organized agencies that coordinate our efforts between Canada and Russia, such as the Canada-Russia Business Forum, etc. I certainly support my former colleague and nowadays head of Precious Stones and Precious Metals Department, Mr. Kolmogorov who has spoken to you. He said that we have to be careful, but nevertheless investments are possible.

In conclusion, I would like to reiterate yet again that Gasprombank is ready, with all its authority, with all its assets, to jump into the fray and assist Canadian partners. And I would like to convey the message from the management of Gasprombank that we are going to see very soon a meeting of interests between Canadians and Russians, and we wish every success to each and every one of you. Thank you very much for your attention.

(Applause)

Keith Brewer, Co-chair of the Seminar

Thank you very much indeed, Mr. Nikitin, particularly on your ending note, which I thought was rather positive. You must have been listening during the day to find the positive messages, and to be able to quote us back to ourselves. That takes quite an art.

The comments about the last panel of the day being the dessert, or whatever, I have to respond to that since I am to blame for the format of the seminar. In fact, the advantage of being on this part of the program is that most people may have by now forgotten what the first speakers said this morning. So, therefore, the messages of the last speakers are still fresh in the mind of the audience, and therefore I feel that perhaps the panel should thank the chairman for giving you this special place in the day's events.

We have accomplished a lot today, but we still wanted to try and leave some time to proceed to open discussion. I do not know whether Boris Aryev would check to see if there are any people outside who want to come in, but I am inclined not to offer the participants a break, but just to say, why not proceed to discussion. I will not try to sum up, but basically I will offer the floor to questions and answers for people who would like to participate, unless you have a better suggestion. There being no conflict here, my view prevails, and I would like to offer anyone the chance to go to a microphone and express their views in English, Russian or any language which can be translated. Mr. Andriash...

End of Seminar, Discussion and Questions

Comment from Mr. Anatoly Andriash, Macleod Dixon

I think I would like to speak in Russian because Alexander Strugov has spoken in Russian, and I am really appreciative to Alexander Strugov for his comments that he made in regard to my presentation. I think that we do not need to now spend everyone's time trying to figure out who is more competent. But I think we are doing a common good, a common business, and the sense is that we have to seek solutions to the problem created by Order 65. This problem does exist. I would have agreed with you that there is no problem had it not been for those legal proceedings that took place, as a result of which licenses were revoked. I said in my presentation, one of the alternative possibilities to this is to accept, at the federal level... perhaps at the level of the Ministry of Natural Resources... a legislative act that would confirm the legitimate nature of the licenses that are issued based on that order. Thank you very much for the comments on my presentation.

Keith Brewer, Co-chair of the Seminar

Thank you very much, Mr. Andriash. Mr. Fares...

Comment from Mr. Ramzi Fares, Project Finance and Development Group

I am Ramzi Fares. I am president of Profidev Ltd. (Project Finance and Development Group) a project development and finance company. We are currently developing, among others, a mining project in the Altai region in Russia. Everything that was said today is relevant to what we are experiencing in Russia, both on the positive as well as on the less positive front. And that is why I am most grateful for having been afforded the opportunity of being here today, although I am neither Canadian nor Russian. And that brings me to the first suggestion I would like to make.

Mr. Chairman, this has been a very useful exercise, and I would like personally to recommend that you make it into more of an international forum, while retaining its bilateral Canadian-Russian umbrella. I heard of this seminar by chance, and I am very happy that I had the chance to be here today. I am sure many other people like me, who are neither Canadian nor Russian would also welcome the same opportunity in the future.

I would like to address my second remark to my colleagues from the World Bank Group, both Mr. Mamadou Barry and Mr. Leo Maraboli. I fully agree with what Mr. Mamadou Barry has said, because we are experiencing the same thing in our work in Russia today. Namely, the perception of the market today is that Russian risk is at such a height that financing projects in Russia, from outside Russia, is a near impossibility. This is not only in the mining sector, this is

systemic. We are working on power projects, we are working on industries. We have the same problems on all these projects. It is a matter of perception and it is going to take a long time before confidence is reinstated, although we all recognize the tremendous efforts that have been ongoing by the government.

In this context, I think the guarantee which was mentioned by Mr. Maraboli for the coal sector is a step in the right direction, and it will go a long way in sanitizing the sector and in bringing foreign investment to the sector, because it provides the umbrella that is necessary for a foreign investor and a foreign lender, rather, to go into this sector. But, we all know that coal is in regression. It is not a sector that is going to be a major contributor in the future to economic growth and development. Therefore, I would like to suggest to my colleagues from the World Bank, whether this guarantee could not be expanded to cover the mining sector at large. I believe there is merit to this and I believe the international mining community would like to see that. I would like to invite my colleagues in this room to voice an opinion on the subject so that we may collectively perhaps reach out to the World Bank and suggest that they should do so. With the World Bank guarantee, we will be able together to resolve the problem of sovereign risk to a large extent. So I would invite, as I said, my colleagues to voice an opinion on this.

There is room for more insurance, for more coverage of risk and, therefore, I would also recommend that this forum takes upon itself to discuss the possibility of an expanded scheme of insurance along the lines that you have seen in Asia, under Asia Limited, or in the United States to cover if you wish the mining sector in Russia. Thank you, Mr. Chairman.

Keith Brewer, Co-chair of the Seminar

Thank you, Mr. Fares. Next speaker. Thank you.

Comment from Representative of B & B Spairs

I represent Canadian B & B Spairs which is engaged in selling Russian jewelry. I guess I have a question to the representative of Gokhran and perhaps to you, (inaudible name), one of the former managers of this department. In purchasing gold products in Russia, we have to go through either Gokhran or the State Jewelry Export Agency. We also, in a way, finance indirectly gold extraction. But you are well aware of what the main problem is with the sales of such Russian products in the western market. It is the licensing system. There is no stability at all. As you know, it is March. As of December 31st, I have not received a single gram of product from Russia because our suppliers' licenses were not renewed. For three months, the company has been sitting on its retail stock so it is not serious. But the question is, do you anticipate any changes? I do not expect you to talk about the entire system, but can you talk about the fact that perhaps licenses would be issued at least for two years, ideally for three years, so that you can have some stability under which we can work in the western market.

(Unidentified person) I can give the floor to Mr. Kolmogorov who can respond.

Reply from Mr. Nikolay Kolmogorov, Russian Ministry of the Economy

In that draft about the importation-exportation, we have excluded any quotation of jewelry. This is something that we envisaged and have been waiting for a year. Jewelry does not need to be subject to quotas or licenses and indeed we absolutely agree with the fact... and this is something I spoke (about) before... it is with great difficulty and with very slow speed that we are trying to move this legislative Act. But before I left, I learned that, finally, the decree on quotations has been signed, because we still have the system of quotes for precious metals. I hope I have responded to your questions. We said that the need to simplify procedure is there. And this is something that we are working on, and I cannot tell you it will be solved tomorrow.

Comment from Dr. Matthew Grodowski, Intertech

My name is Matthew Grodowski. I am President of Intertech Corporation, the engineering firm which is located in New Hampshire in the United States. We built the Kolyma gold refinery in Magadan a couple of years ago, and the first Ukranian gold mill last year.

Mr. Kolmogorov, here a few minutes ago, mentioned that 80% of Russian gold reserves are in mineral deposits and only 20% in placer. However, 80% of gold extraction comes from placer deposits. On the other hand, when you participate in this conference, you note that all the discussions are focused on one, two, three, or four very large deposits, or very large projects requiring US$100 million or more. Now, if such projects are very capital intensive and also very risky, why not shift the emphasis to the multitude of smaller deposits which would require perhaps a US$2 or US$3 million investment which would be possible to recover in one mining season, and produce at each of those deposits, or projects, perhaps two or three tonnes of gold a year.

The collection of such projects could potentially vastly increase Russian gold production, with very little risk and great ease of both financing and operation. Mr. Kolmogorov also mentioned that, here in Canada, there is a manufacturer of so-called Nelson concentrators or centrifuges, which very effectively and ecologically allow the very efficient extraction of gold from both rock and placer deposits. It is one of the technologies which could be very easy and, with great effectiveness, introduced to those projects in Russia. That is something probably that can be a subject of separate discussions or seminars or included in major conferences.

Keith Brewer, Co-chair of the Seminar

Okay, thank you very much, Matthew. Are there any other questions? Mr. Kolmogorov, would you be kind enough to reply please.

Reply from Mr. Nikolay Kolmogorov, Russian Ministry of the Economy

I am sorry but I do not remember from which placer deposits we get 80%. I do not think I said 80%, but as far as the fine gold, which is larger than 20 microns but smaller than 200 microns. That is what we were talking about. That kind of equipment. I said before that my presentation has not been offered in full. I did not say that production went down because of the lower prices. I did not say it had to be close. I did not say that, with the introduction of these export duties, the profitability of enterprises has gone down quite significantly. But I did say that it is why it is very difficult to purchase this kind of equipment. We plan to increase production, maybe 2 or 3% per year, but not more. We have to accumulate resources to purchase such equipment. But placer deposits and smaller deposits, that is a separate issue. Western colleagues can look into such projects with Russian enterprises but the return on investment is about half a year. As Byron Nelson said, that half a year is the magic figure to which you can expect some return. Are you satisfied with this response? Thank you.

Keith Brewer, Co-chair of the Seminar

Do you have any more questions? Does that mean that the seminar will end as planned at five o'clock?

Let me just say a couple of things. Maybe not in the right order. First of all, for those of us who are members of the Canada-Russia Working Group on mining, we will commence again at seven o'clock tonight. It will be rather more informal than here, but the meeting room has been changed. It will be in Ballroom B. There are also some events connected with the opening of the World Mines Ministries Forum, for people who have registered for that. Please make sure to leave your headsets here.

I am not going to sum up. I have to say, though, that it is quite heartening that there has been a very strong commitment on the part of the speakers to really lay out their positions, their thoughts and their perspectives. And really that is the basis on which we can embark on a route of progress, and hopefully get to some sort of win-win situation. Even when, perhaps, progress seems slow or even some parties feel disadvantaged or temporarily to have suffered setbacks. As I was reciting people's past history, and noting how many metallurgists there were, economists and this sort of thing, I think most people, as they get to this stage of their lives, realize you do not need any more courses on metallurgy, you do not need any more courses on economics or finance, but what we all need is the art of negotiating or the art of public speaking, the art of being able to speak and synthesize and to actually reach lasting solutions. Does anybody else want to say anything before I am reluctantly forced to bring the meeting to a close. Yes please, Madame...

Comment from Ms. Alina Pekarsky, York University

Since you mentioned the art of public speaking and other educational activities, I want to just tell the Seminar that there is a new program that is financed by CIDA, and this program is called Corporate Government Training for Russia. And maybe some of you would be interested to know more about this program.

Basically, during the next three and a half years, we are going to invite groups of corporate directors, members of the boards of major corporations in Russia, to come to Canada for two-week seminars to learn about aspects of corporate governance as it is perceived here and applied to Russian conditions. And, to be able to do it, we are going to develop the curriculum, to develop the program with the help of western university consultants and Russian experts.

There is quite significant activity that OECD is involved in during the last two years, and I just came from the seminar in Moscow on corporate governance and I think lots of issues that were raised today are related to how privatized companies perceive corporate governance. And the fact that this term is difficult to translate into Russian shows that the concept is still not known and not used. Maybe in Russian it should not (a few Russian words) but (a few more Russian words). It is a way how to conduct the activity of the company, and maybe if there will be a common ground between foreign investors and Russian investors and Russian participants of the projects, there will be a better understanding. So if anybody is interested in this project, please talk to me.

Keith Brewer, Co-chair of the Seminar

Thank you very much indeed, Madame. Any other...? Mr. McOuat please...

Comment from Mr. Jack McOuat, Watts, Griffis and McOuat

First of all, I would very much like to express my appreciation to all of our Russian guests who have come so far and spent so much time preparing for this session. I certainly learned a great deal about the changes that are going on. Hopefully, they will lead to improvements. I was very intrigued with Mr. Maraboli's comments about the World Bank providing guarantees to coal renewal or whatever the case may be. And I certainly endorse Mr. Fares' observations. Why not make it broader, and make it apply to the entire mineral industry? Had that been in place I think, for example, we would have had three times the size of the attendance that you do today. There is not much new blood in this room relative to investments in minerals in Russia, and I think a few things, such as the World Bank initiative, will help that greatly. Thank you.

Keith Brewer, Co-chair of the Seminar

Thank you, Mr. McOuat.

Comment from unidentified speaker

I am actually just endorsing the same points that have just been made, but from the perspective that we had from our Russian colleagues who pointed out that there will be change and improvement but that it will take time. And I think that the suggestion that the World Bank could extend their scheme for coal into other minerals would be a big help, because there are an awful lot of us out there who wish to develop some quite exciting projects in Russia. Thank you.

Keith Brewer, Co-chair of the Seminar

Thank you very much. Leo? Leo Maraboli...to reply then, please.

Reply from Mr. Leo Maraboli, World Bank

I would like to thank you for the reaction to the presentation I made, and particularly to the concept of the guarantee. However, I would like to make it very clear that this guarantee at this moment is a first step which is being focused towards the coal sector. As I suggested to you, there is an opening on it that can address minerals but the important thing for this kind of meeting I think is that that guarantee, as well as other operations that the World Bank is undertaking in Russia at this moment, reflects a priority that has been determined at a high level in the government by a number of ministries. And this is very important because it would be very sad that we leave from here today being very happy because all of us agree on a certain importance. But, the truth of the matter is that these priorities are determined by the relevant sectoral ministries, by the Ministry of Economy, the Ministry of Finance at least, and several other agencies. Therefore, in order to look at opening up a guarantee... or in order to address the establishment of a guarantee system for the mineral sector other than coal, this matter will have to be addressed in a broader forum which would include these other authorities of Russia in order to put the right priority to it.

Comment from Mr. Vitaly S. Timokhov, Aird & Berlis

I want to address one issue that I think everybody is thinking about, but somehow it never really was discussed here. The issue is the lack of information on both sides, on the Russian side and on the Canadian side, unfortunately. On the Canadian side, I know that last year I took a two months internship with Western Pinnacle for our law firm to develop a database in Russian legislation to increase our knowledge of what's going on in Russian industry. We were able to follow the most recent developments on the Russian side, and know that for instance the

Magadan region of Russia is so successful and will be successful probably in the near future, because they offered certain tax breaks to foreign investors. The same will probably be applicable to the Baikal region of the Russian Federation. And, unfortunately, Canadians are not aware of those changes in many cases and, vice versa, the Russian side does not really know what is going on the Canadian side. They know that certain efforts are made by the Canada-Russia Business Forum, by the mining sector, to extend Canadian knowledge to Russians, and they know that there are certain discussions with the Canadian International Development Agency.

In this regard, I have a proposal, and that would be to the Russian Minister of Natural Resources, probably, and to other Russian representatives—to maybe set up a web site for informing prospective foreign investors of the most recent changes in the Russian legislation, presenting certain schemes for prospective investors. We had an absolutely amazing presentation today, and I probably would want to have these materials and maybe a full presentation to our clients in the future who might be interested in such an investment in Russia. Rather than going through the painful procedure of collecting these materials myself, I would rather go to a web site and, you know, it would be just great. Probably the same kind of effort could be made on the Canadian side to present to the Russian side much more information about what we as Canadians... what we, as prospective investors in the Russian economy, may have in mind. Thank you very much.

Keith Brewer, Co-chair of the Seminar

Thank you very much. Yes, Marina... Marina Kaplun.

Comment from Ms. Marina Kaplun, Kilborn Engineering Pacific

I am taking an opportunity to take this floor in another capacity, in which I am very honoured to send my regards to all of this forum, to this panel, on behalf of the Canada-Pacific Russia Trade Centre, which is very friendly and similar to the Canada-Russia Business Forum organization and it is based in Vancouver. On behalf of all the members of our CPRTC, I would like to send best wishes and many, many thanks for coming to this particular forum to all the Russian organizations. We would be very happy to host a similar forum in Vancouver, because I believe everybody knows that the Russian Far East is much closer to Western Canada than Western Canada to Eastern Canada. That is why, please, let us know if there is any chance, as a distinguished speaker, to have you for our next workshop in Vancouver.

Now, I am going back to my engineering capacity and being a project coordinator of all the projects which SNC Lavalin and Kilborn Engineering Pacific, in particular, have completed for the past nine years in the former Soviet Union. I have with me the proposal for direct cooperation with the Russian mining entities, government, private, joint stock or any other ownership based on... offering our direct services. And I would like to finish my little comment

here on a positive note. Yes, we know all of these problems. We were the first engineering firm ever licensed to provide engineering and construction services in Russia. Kubaka was our first actual exercise and Ilya Rosenblum, I believe, remembers 1992 when, with the help of our organization, Cyprus won the tender. And, as for Dukat, we have been on this project since day one and, hopefully, we will get back to Dukat, as well as to any other and many more projects in the Russian Federation.

Keith Brewer, Co-chair of the Seminar

Thank you, Madame Kaplun.

Comment from Mr. Ivan V. Rojine, Republic of Sakha (Yakutia)

I am a representative from the Sakha/Yakutia Republic of the Russian Federation, here in Toronto. Today's seminar has been very useful. Its work has been very productive, the outcome has been very positive, and I would like to use this opportunity to voice a proposal, addressing myself to the organizers of this seminar. The seminar has indeed been organized very well, at a very high level, well represented. I ask whether we can have a similar seminar with a similar composition to be conducted (because I was really interested in the presentations, including those from the World Bank representatives) in Moscow. That would yet again convince potential investors *in situ*, so to speak, in Moscow, in the field, that the investment climate is taking real steps forward. I would like to propose to conduct such a seminar in Moscow. Thank you.

Keith Brewer, Co-chair of the Seminar

Last chance! Any questions? Do I then have your permission to call this seminar to a close? All right, in that case, I will thank you again, personally and professionally. A fantastic job. And to those who came from afar, thank you for your efforts. And to those that walked down the street, thank you. I hereby declare this seminar closed. Thank you.

(Applause)

ANNEX

List of Participants

Seminar on Investment in the Russian Mining Sector

Wednesday, March 8, 2000

Crowne Plaza Hotel, Toronto, Ontario

Seminar on Investment in the Russian Mining Sector

Chairman:	Mr. Keith Brewer, Director General, Minerals and Metals Sector, Department of Natural Resources
Co-Chairman:	Mr. Michael Reshitnyk, Trade Commissioner-Russia, Department of Foreign Affairs and International Trade Canada

Speakers (in alphabetical order):

Mr. Anatoly Andriash
Associate, Macleod Dixon office in Moscow

Mr. Mamadou Barry
Investment Promotion Officer, Multilateral Investment Guarantee Agency
The World Bank Group

Mr. Ross Beaty
President
Pan American Silver

Ms Ann Collins
Director-Eastern Europe Division
Department of Foreign Affairs and International Trade Canada

Mr. Sergey Dokuchaev
Chairman
Lanta Bank

Mr. Tim Haddon
CEO and President
Archangel Diamond Corporation

Mr. Tony Ianno
Parliamentary Secretary to the President of the Treasury Board and
Minister Responsible for Infrastructure; Member of the House of Commons
Natural Resources Committee

Mr. John Ivany
Executive Vice President
Kinross Gold

Mr. Nikolay Kolmogorov
Head, Precious Metals and Stones
Russian Ministry of Economy

Mr. Yuri Kotlyar
Chairman of the Board
Norilsk Nickel

Mr. Leo Maraboli
Senior Mining Engineer
The World Bank Group

Mr. Valentin Nikitin
Chief of the Precious Metals and Gems
Department of Gasprombank

Mr. Mark Rachovides
Associate Banker
European Bank for Reconstruction and Development

Mr. Ilya Rosenblum
Chairman, Senator
Russian Federation
Magadan Regional Duma

Mr. Alexander Strugov
Nedra Centre/Production Sharing Agreements Section of
Russian Ministry of Natural Resources

Ms. Eva Thiel
Senior Economist
Directorate for Financial and Enterprise Affairs
Organization for Economic Cooperation and Development

Minister Boris Yatskevich
Minister of Natural Resources of the Russian Federation

Attendees:

Mr. Louis Arseneau
Senior Economic Policy Analyst
Natural Resources Canada

Mr. Nikolai P. Abramov
Deputy Director General
in Production Development
Norilsk Nickel Incorporated

Mr. Boris Aryev, P.Eng.
President
Marhope Systems Inc.

Ms. Cathy Boynton
Area Director: Central & Eastern Europe and Turkey
International Markets Branch
Ontario Exports

Mr. James Brown
Manager, International Operations
New Business Development Certification
CSA International

Ms. Olga L. Buhova
Foreign Relations Administrative Manager
Lanta Bank

Mr. Evgueni V. Chteinikov
Head of Economic and Planning Department
Ministry of Natural Resources of Russian Federation

Mr. Gary E. Davis
Chief Financial Officer
Archangel Diamond Corporation

Mr. Dennis R. Dash
Senior Vice-President
Central Asia Goldfields Corporation

Mr. Paul C. Davidson
Manager, Trade Finance
U.S. Business Specialist
Royal Bank

Mr. Sergey V. Dokuchaev
Chairman of the Board
Lanta Bank

Ms. Alyson D'Oyley
Macleod Dixon
Barristers & Solicitors

Mr. Nikolay A. Draenkov
Foreign Economic Relations
Deputy Director
Prioksky Plant of Non-Ferrous Metals

Mr. Timur Eivazou
Ministry of Foreign Affairs of Russia

Mr. Ramzi T. Fares
President and CEO
Project Finance & Development Group

Mr. Alexander Gracher
Ministry of Natural Resources

Mr. Albert Grenke
Director
International Nuclear Services Corporation

Dr. Matthew Grodowski
President
Intertech

Mr. John R. Haigh
Director, Investor Relations
Archangel Diamond Corporation

Mr. Richard Helbig
CEO
Price, Helbig & Company

Mr. Jeffrey R. Huspeni
Vice President, Business Development
Newmont Mining Corporation

Mrs. Thembi C. Kamanga-Silundika
Circumpolar Analyst (Russia)
Indian and Northern Affairs Canada

Mr. Igori R. Kamkin
Mining Director
Norilsk Nickel Incorporated

The Honourable Robert P. Kaplan, P.C., Q.C., LL.B
Honorary Consul of Kazakhstan for Canada

Ms. Marina Kaplun, Mech.Eng.
Project Coordinator
Advisor for the CIS
Kilborn Engineering Pacific Ltd.

Ms. Grace King
Senior Trade Policy Analyst
Department of Foreign Affairs and International Trade

Mr. Anatoly P. Konovalov
Deputy General Director
Reserves Development
Norilsk Nickel Incorporated

Mr. Valeri V. Kourgouzov
Deputy General Director
Norilsk Nickel Incorporated

Mr. Nikolai N. Kozin
Vice-President
Closed Joint-Stock Company

Mr. Gerard Kreeft
Managing Director
Energy Wise

Mr. Miroslav Kruts
Manager, Russian Projects
Dundee Bancorp Inc.

Mr. Boris D. Lerman
First Vice-President
Candidate of Technic Sciences
Altynalmas

Ms Adèle Lessard, M.A.
Communications and Special Projects Officer
Minerals and Metals Sector
Natural Resources Canada

Mr. Ian McColl, P.Eng.
Executive Vice-President
Kvaerner

Mr. Michael E. McDermott
Export Manager
Goodyear Canada Inc.

Mr. Donald Wm. McKinlay
Mineral Industry Consultant

Mr. Jack F. McOuat, P.Eng.
Chairman
Watts, Griffis and McOuat

Ms. Lillian Mokievsky-Zubok
Interview Program, Market Information
Department of Foreign Affairs and International Trade

Mr. Alex Mounine
Mobile-LSM Consultant Group

Ms. Nataliya V. Opaleva
Vice-president, Head of project finance
Lanta Bank

Mr. André M. Pauwels, P.Geo
Exploration Manager
Cominco

Mr. Norman Peterson
Minerals and Metals Sector
Natural Resources Canada

Mr. Mikhail Polienko, B.Sc., M.B.A.
Management Consultant
Hatch Associates

Mr. Vladimir Yu. Preis
President
Transnational Bank

Mr. Ivan V. Rojine
Trade Commissioner, Adviser to President
Republic of Sakha (Yakutia), Russia
Trade Commission in Canada

Mr. Christian Schaffalitzky
Managing Director
Ennex International plc

Mr. Kasem M. Shakirov
President
Closed Joint-Stock Company

Mr. Sergei Shibaev, MBA, ACCA, Ph.D.
Vice President & Director
Deloitte & Touche

Mr. Guillaume A. Siemienski
Project Officer
Russia, Ukraine and Nuclear Programs Division
Canadian International Development Agency

Mr. Viktor Snegir
Business Development Manager
Kvaerner Process

Mr. Victor I. Tarakanovsky
Chairman of the Board
Union of Gold Mining Artels of Russia

Mr. Vitaly S. Timokhov
Student-at-Law
Aird & Berlis

Mr. Victor Tkachenko
Managing Director
Sarmät International Corporation

Mr. Sergei N Tsivunin
Certified Russian Translator & Interpreter
Parallel International Consultants

Mr. Lars E. Vännman
Chief Executive
Tsar Emerald Mining AB

Mr. Oleg Valeyev, Ph.D.
Lakefield Research Limited

Ms Victoria Vargas SZ.
Investment Analyst
Kinross Gold Corporation

Mr. Michael Vujnovich
Senior Representative
Placer Dome International Ltd.

Mr. Sean Waller, M.Sc., P.Eng.
Manager, Strategic Development
Kilborn Engineering

Mr. Frank L. Wells, Jr.
Director, Business Development and Planning
Newmont Mining Corporation

Mr. Don Whalen
Chairman
High River Gold

Note: Not all seminar attendees appear on this list.